ShaMaran Petroleum Corp

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2012

(unaudited)

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the management of the company. The company's independent auditor has not performed a review of these financial statements.

SHAMARAN PETROLEUM CORP.

Condensed Interim Consolidated Statement of Comprehensive Income (unaudited)

(Expressed in thousands of United States Dollars, except for per share data)

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Expenses from continuing operations					
General and administrative expenses	5	(459)	(837)	(843)	(1,001)
Share based payments expense	19	(8)	(114)	(6)	(173)
Depreciation and amortisation expense		(48)	(56)	(97)	(108)
Relinquishment costs	6	-	-	(25,732)	-
Net recovery of impairment losses	7	945	-	697	-
Share of loss of associate	14	(46)	(30)	(112)	(109)
Operating income / (loss)		**384**	**(1,037)**	**(26,093)**	**(1,391)**
Finance costs	8	(360)	(229)	(360)	(456)
Finance income	9	25	367	416	1,529
Net finance income / (loss)		**(335)**	**138**	**56**	**1,073**
Income / (loss) before income tax expense		**49**	**(899)**	**(26,037)**	**(318)**
Income tax expense	10	(28)	(33)	(52)	(74)
Net income / (loss) from continuing operations		**21**	**(932)**	**(26,089)**	**(392)**
Discontinued operations					
Loss from discontinued operations	11	(13)	(43)	(50)	(121)
Net income / (loss) for the period		**8**	**(975)**	**(26,139)**	**(513)**
Other comprehensive income:					
Currency translation differences		(50)	33	(17)	69
Total other comprehensive income / (loss)		**(50)**	**33**	**(17)**	**69**
Total comprehensive loss for the period		**(42)**	**(942)**	**(26,156)**	**(444)**
Loss in dollars per share:					
Continuing operations					
Basic and diluted		-	-	(0.03)	-
Discontinued operations					
Basic and diluted		-	-	-	-
Continuing and discontinued operations					
Basic and diluted		-	-	(0.03)	-

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.

Condensed Interim Consolidated Balance Sheet (unaudited)

(Expressed in thousands of United States Dollars)

	Note	June 30, 2012	December 31, 2011
Assets			
Non-current assets			
Intangible assets	12	51,096	45,836
Property, plant and equipment	13	606	382
Investment in associate	14	56,414	51,835
		108,116	**98,053**
Current assets			
Other current assets		566	647
Inventories	15	172	3,328
Other receivables		651	105
Cash and cash equivalents		5,989	49,085
		7,378	**53,165**
Assets associated with discontinued operations	11	**4**	**21**
Total assets		**115,498**	**151,239**
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	16	3,528	23,245
Current tax liabilities		50	122
Borrowings	17	10,000	-
		13,578	**23,367**
Liabilities associated with discontinued operations	11	**2,092**	**2,613**
Total liabilities		**15,670**	**25,980**
Equity			
Share capital	18	534,068	533,349
Share based payments reserve		3,834	3,828
Cumulative translation adjustment		(35)	(18)
Accumulated deficit		(438,039)	(411,900)
Total equity		**99,828**	**125,259**
Total liabilities and equity		**115,498**	**151,239**

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors and authorized for issue on August 21, 2012 and signed on its behalf:

/s/Cameron Bailey

J. Cameron Bailey, Director

/s/Keith Hill

Keith C. Hill, Director

SHAMARAN PETROLEUM CORP.
Condensed Interim Consolidated Statement of Changes in Equity (unaudited)
(Expressed in thousands of United States Dollars)

	Share capital	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2011	**432,506**	**3,968**	**5**	**(200,961)**	**235,518**
Total comprehensive loss for the period	-	-	69	(513)	**(444)**
Transactions with owners in their capacity as as owners:					
Private placement	52,204				**52,204**
Transaction costs	(944)				**(944)**
Share-based payments	-	173	-	-	**173**
Share options exercised	1,065	(404)	-	-	**661**
	52,325	(231)	-	-	**52,094**
Balance at June 30, 2011	**484,831**	**3,737**	**74**	**(201,474)**	**287,168**
Balance at January 1, 2012	**533,349**	**3,828**	**(18)**	**(411,900)**	**125,259**
Total comprehensive loss for the period	-	-	(17)	(26,139)	**(26,156)**
Transactions with owners in their capacity as as owners:					
Equity based financing fee	719	-	-	-	**719**
Share-based payments	-	6	-	-	**6**
	719	6	-	-	**725**
Balance at June 30, 2012	**534,068**	**3,834**	**(35)**	**(438,039)**	**99,828**

The accompanying notes are an integral part of these consolidated financial statements.

SHAMARAN PETROLEUM CORP.

Condensed Interim Consolidated Statement of Cash Flows (unaudited)

(Expressed in thousands of United States Dollars)

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Operating activities					
Net income / (loss) for the period from continuing operations		21	(932)	(26,089)	(392)
Adjustments for:					
Interest income		(1)	(168)	(25)	(277)
Interest expense on equity based finance fee	8	360	-	360	-
Foreign exchange gain	9	(24)	(199)	(391)	(1,252)
Depreciation and amortisation expense		48	56	97	108
Income tax		(70)	48	(72)	91
Net recovery of impairment losses	7	(945)	-	(697)	-
Share-based payments expense	19	8	114	6	173
Share of loss of associates	14	46	30	112	109
Capitalized expenses		-	(406)	-	(597)
Changes in trade and other receivables		696	(18)	(546)	(36)
Changes in other current assets		170	(335)	440	(604)
Changes in inventories		1,403	303	2,705	(560)
Changes in accounts payable and accrued expenses		(4,145)	5,447	(19,717)	7,727
Cash used in discontinued operations		(337)	(166)	(554)	(354)
Net cash inflows / (outflows) from operating activities		**(2,770)**	**3,774**	**(44,371)**	**4,136**
Investing activities					
Intangible assets		(1,749)	(23,324)	(4,181)	(28,327)
Property, plant and equipment		(446)	(565)	(252)	(602)
Investment in associate		(4,691)	(11,443)	(4,691)	(15,443)
Interest received on cash deposits		1	168	25	277
Net cash outflows to investing activities		**(6,885)**	**(35,164)**	**(9,099)**	**(44,095)**
Financing activities					
Proceeds net of costs on issuance of shares		-	51,865	-	51,921
Proceeds from borrowings		10,000	-	10,000	-
Net cash inflows from financing activities		**10,000**	**51,865**	**10,000**	**51,921**
Effect of exchange rate changes on cash and cash equivalents		(26)	232	374	1,321
Change in cash and cash equivalents		**319**	**20,707**	**(43,096)**	**13,283**
Cash and cash equivalents, beginning of the period		5,670	51,260	49,085	58,684
Cash and cash equivalents, end of the period		**5,989**	**71,967**	**5,989**	**71,967**

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

ShaMaran Petroleum Corp. ("ShaMaran" and together with its subsidiaries the "Company") is incorporated under the Business Corporations Act, British Columbia, Canada. The address of the registered office is Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6E 3X1. The Company's shares trade on the TSX Venture Exchange and NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

The Company is engaged in the business of oil and gas exploration and development, and is currently in the pre-production stages of an exploration and development campaign in respect of petroleum properties located in the Kurdistan Region of Iraq ("Kurdistan").

2. Basis of preparation and summary of significant accounting policies

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") including IAS 34 Interim financial reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods of application adopted are consistent with those disclosed in note 3 of the Company's consolidated financial statements for the year ended December 31, 2011.

These consolidated financial statements have been prepared on the going concern basis which assumes that the Company will be able to realize into the foreseeable future its assets and liabilities in the normal course of business as they come due. The ability of the Company to continue as a going concern and to successfully carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves, the resolution of remaining political disputes in Iraq and the ability of the Company to obtain additional financing to develop reserves.

In the absence of current production revenues, the Company is currently dependent upon its existing financial resources which include $6.0 million of cash and cash equivalents as at June 30, 2012 to satisfy its obligations and finance its exploration and evaluation program in Kurdistan. Failure to meet these exploration and evaluation commitments could put the related license interests at risk of forfeiture. Refer also to notes 20 and 23.

The Company believes that based on the forecasts and projections they have prepared the resources available will be sufficient for the Company and its subsidiaries to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months and to continue as a going concern for the foreseeable future. The Company has a number of financing possibilities which it believes it would be able to pursue if and when required. Nevertheless the possibility remains that the Company's operations and the availability of additional finance could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks.

3. Critical accounting judgments and key sources of estimation uncertainty

Areas of critical accounting judgments that have the most significant effect on the amounts recognized in the financial statements are disclosed in Note 4 of the Company's consolidated financial statements the year ended December 31, 2011.

(Expressed in thousands of United States Dollars unless otherwise stated)

4. Business and geographical segments

The Company operates in one business segment, the exploration and development of oil and gas assets, in one geographical segment, the Kurdistan Region of Iraq. As a result, in accordance with *IFRS 8 Operating Segments,* the Company has presented its financial information collectively for one operating segment. Refer to note 11 for disclosure of the Company's discontinued operations.

5. General and administrative expenses

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
General and administrative expenses incurred	(1,374)	(2,610)	(3,008)	(4,534)
General and administrative expenses capitalized as E&E assets	915	1,773	2,165	3,533
General and administrative expenses	**(459)**	**(837)**	**(843)**	**(1,001)**

The Company capitalizes as E&E assets those general and administrative expenses incurred which relate to the operational aspects of the Company's E&E activities. Refer also to note 12.

6. Relinquishment costs

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Relinquishment fees	-	-	25,000	-
Costs to windup Pulkhana and Arbat operations	-	-	732	-
Total relinquishment costs	**-**	**-**	**25,732**	**-**

On January 17, 2012 the Company signed agreements with the KRG to relinquish the Pulkhana and Arbat Block PSCs. On January 25, 2012 the Company paid a total of $25 million to the KRG in accordance with the terms of the agreements relieving the Company of all further obligations under the PSCs including its remaining minimum financial commitments. Refer also to notes 12 and 20.

7. Impairment losses

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Write down drilling inventory to net realizable value	(138)	-	(451)	-
Recovery of impairment losses on exploration and evaluation assets	1,100	-	1,100	-
Impairment recovery / (loss) on property, plant and equipment	(17)	-	48	-
Net recovery of impairment losses	**945**	**-**	**697**	**-**

The above indicated losses and recoveries relate to the relinquishment of the Pulkhana and Arbat production sharing contracts completed January 17, 2012. Refer also to notes 12, 13, 15 and 20.

(Expressed in thousands of United States Dollars unless otherwise stated)

8. Finance cost

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest expense associated with equity based financing fee	360	-	360	-
Guarantee fees	-	229	-	456
	360	**229**	**360**	**456**

The interest expense relates to a loan entered into with two investment companies who jointly are principal shareholders of the Company and represents the amortization of prepaid interest for the first three months of the six month loan term. Refer also to notes 17 and 22.

The guarantee fees relate to a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs which was provided to the KRG by a related company on behalf of the Company. As a result of having relinquished the Pulkhana and Arbat Blocks the guarantee is no longer required by the Company.

9. Finance income

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Interest income	1	168	25	277
Foreign exchange gain	24	199	391	1,252
	25	**367**	**416**	**1,529**

Interest income represents bank interest earned on cash and investments in marketable securities.

The foreign exchange gains resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the reporting period against the United States dollar which is the reporting currency of the Company.

10. Taxation

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Income tax expense from continuing operations	**28**	**33**	**52**	**74**

The Company's income tax expense relates to a provision for income tax on service income generated in Switzerland. The income tax is calculated at the effective tax rate of 25% prevailing in this jurisdiction.

(Expressed in thousands of United States Dollars unless otherwise stated)

11. Discontinued operations

During May of 2009 the Company sold to a third party substantially all of its oil and gas properties located in the United States in the Gulf of Mexico. The results of the discontinued operations included in the consolidated statement of comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Expenses				
Professional, general and administrative, and other	13	43	50	121
Net loss attributable to discontinued operations	**13**	**43**	**50**	**121**

The major classes of assets and liabilities included in the consolidated balance sheet are as follows:

	June 30, 2012	December 31, 2011
Assets		
Prepaid expenses	4	21
	4	**21**
Liabilities		
Trade payables and accrued expenses	365	539
Provision	1,727	2,074
	2,092	**2,613**
Net liabilities	**2,088**	**2,592**

The provision relates to site restoration costs pertaining to the remaining interests the Company holds in petroleum properties located in the United States. The provision was determined based on the Company's remaining net ownership interest in the corresponding wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods.

(Expressed in thousands of United States Dollars unless otherwise stated)

12. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2011			
Cost	149,692	270	149,962
Accumulated amortisation	-	(70)	(70)
Net book value	**149,692**	**200**	**149,892**
Year ended December 31, 2011			
Opening net book value	149,692	200	149,892
Additions	101,894	1	101,895
Amortisation expense	-	(97)	(97)
Impairment losses	(205,861)	-	(205,861)
Exchange differences	-	7	7
Net book value	**45,725**	**111**	**45,836**
At December 31, 2011			
Cost	251,586	271	251,857
Accumulated amortisation	-	(160)	(160)
Impairment losses	(205,861)	-	(205,861)
Net book value	**45,725**	**111**	**45,836**
Six months ended June 30, 2012			
Opening net book value	45,725	111	45,836
Additions	4,204	3	4,207
Amortisation expense	-	(47)	(47)
Recovery of impairment losses	1,100	-	1,100
Net book value	**51,029**	**67**	**51,096**
At June 30, 2012			
Cost	255,791	268	256,059
Accumulated amortization	-	(201)	(201)
Impairment losses	(204,762)	-	(204,762)
Net book value	**51,029**	**67**	**51,096**

In December 2011 the Company took the decision to relinquish to the KRG the Pulkhana and Arbat Block PSCs and immediately suspend all operations associated with those two production sharing contracts. The Company has recorded impairment losses to expense all exploration and evaluation assets, which includes acquisition costs, capacity building payments to the KRG, costs of acquiring seismic data, and drilling and testing costs which have been incurred by the Company on these two Blocks up to December 31, 2011. The relinquishment was completed on January 17, 2012. Refer also to notes 6 and 7.

The net book value of exploration and evaluation assets at June 30, 2012 relates directly to the Taza Block in the amount of $44.2 million (December 31, 2011: $40.9 million) and an amount of $6.8 million (December 31, 2011: $4.8 million) in capitalized general administrative support and other costs. Refer also to note 23.

Other intangible assets comprise computer software licenses. The amortisation charge is presented as part of general and administrative expenses within the Company's consolidated statement of comprehensive income.

(Expressed in thousands of United States Dollars unless otherwise stated)

13. Property, plant and equipment

	Oil and Gas equipment	Computer equipment	Furniture and office equipment	Total
At January 1, 2011				
Cost	-	203	217	420
Accumulated depreciation	-	(66)	(24)	(90)
Net book value	**-**	**137**	**193**	**330**
Year ended December 31, 2011				
Opening net book value	-	137	193	330
Additions	678	36	13	727
Disposals	(171)	(7)	(19)	(197)
Depreciation expense	(160)	(78)	(46)	(284)
Impairment losses	(174)	(17)	(10)	(201)
Exchange differences	-	5	2	7
Net book value	**173**	**76**	**133**	**382**
At December 31, 2011				
Cost	445	232	203	880
Accumulated depreciation	(98)	(139)	(60)	(296)
Impairment losses	(174)	(17)	(10)	(201)
Net book value	**173**	**76**	**133**	**382**
Six months ended June 30, 2012				
Opening net book value	173	76	133	382
Additions	471	-	-	471
Disposals	(196)	(8)	(14)	(218)
Depreciation expense	(25)	(34)	(17)	(76)
Impairment recovery / (losses)	53	2	(7)	48
Exchange differences	-	-	(1)	(1)
Net book value	**476**	**36**	**94**	**606**
At June 30, 2012				
Cost	509	194	159	862
Accumulated depreciation	(23)	(156)	(64)	(243)
Impairment losses	(10)	(2)	(1)	(13)
Net book value	**476**	**36**	**94**	**606**

As a result of the relinquishment of the Pulkhana and Arbat PSCs the Company has determined that there is impairment in value of certain property plant and equipment employed in the exploration operations associated with these production sharing contracts and has recorded impairment losses on these assets. Refer also to note 7.

(Expressed in thousands of United States Dollars unless otherwise stated)

14. Investment in associate

The Company's investment in associate included in the balance sheet is as follows:

	June 30, 2012	December 31, 2011
Cumulative cash contributions	52,517	47,827
Common share contribution	5,000	5,000
Acquisition costs	204	204
Share of net losses since acquisition	(409)	(298)
Recovery of costs from partner	(898)	(898)
Total investment in associate	**56,414**	**51,835**

The share of loss from associate included in the statement of comprehensive income is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Total loss of associate	(137)	(89)	(333)	(325)
Company's 33.5% share of loss of associate	**(46)**	**(30)**	**(112)**	**(109)**

Refer also to note 20.

15. Inventories

	June 30, 2012	December 31, 2011
Drilling and downhole equipment	463	4,570
Impairment losses	(291)	(1,242)
Total inventories	**172**	**3,328**

The Company has determined that at December 31, 2011 there was impairment in the value of certain inventory items which were to be used in the drilling programs in the Pulkhana and Arbat Blocks as a result of the termination of these drilling programs. Refer also to note 7.

16. Accounts payable and accrued expenses

	June 30, 2012	December 31, 2011
Trade accounts payable	1,164	17,409
Accrued expenses	1,669	4,379
Net payables to joint venture partners	695	1,457
Total accounts payable and accrued expenses	**3,528**	**23,245**

17. Borrowings

On April 2, 2012 the Company entered into a debenture financing in the amount of $10 million (the "Loan") with two investment companies who jointly are principal shareholders of the Company (the "Lenders"). The Loan matures and is payable six months after closing of the transaction (the "Maturity Date") and can be prepaid up to the Maturity Date without interest or penalty. Interest will accrue on any unpaid Loan balance at 5% per annum commencing on the earlier of the Maturity Date or an event of default under the Loan, and will be payable semi-annually thereafter. The Debenture is secured against the shares of the Company's operating subsidiaries. In connection with the Loan the Company has issued to the Lenders an aggregate of 3,000,000 common shares of the Company. The fair value of the shares issued of $719 has been accounted for as prepaid interest and is being amortized over the six month period from closing to Maturity Date. Refer also to notes 8 and 22.

18. Share capital

The Company is authorized to issue an unlimited number of common shares with no par value. The Company's issued share capital is as follows:

	Number of shares	$000
Balance at January 1, 2011	**623,182,194**	**432,506**
Private placement, net of issuance costs	183,500,000	99,778
Share options exercised	1,301,666	1,065
Balance at December 31, 2011	**807,983,860**	**533,349**
Shares issued as equity based financing fee	3,000,000	719
Balance at June 30, 2012	**810,983,860**	**534,068**

Refer also to notes 8 and 17.

19. Share-based payments

The Company has an established share purchase option plan whereby a committee of the Company's board of directors may, from time to time, grant up to a total of 10% of the issued share capital to directors, officers, employees or consultants. The number of shares under option at any specific time to any one option holder shall not exceed 5% of the issued and outstanding common shares of the Company. The term of any options granted under the plan will be fixed by the Board of Directors and may not exceed five years from the date of grant. A four month hold period may be imposed by the stock exchange from the date of grant. Vesting terms are at the discretion of the Board of Directors. All issued share options have terms of three to five years and vest over periods of up to three years. The exercise prices reflect trading values of the Company's shares at grant date.

(Expressed in thousands of United States Dollars unless otherwise stated)

Movements in the Company's share options outstanding are explained as follows:

	Number of Share options	Weighted average exercise price CAD
Outstanding at January 1, 2011	**4,560,000**	**0.65**
Granted	25,000	0.80
Exercised	(1,301,666)	0.49
Forfeited	(50,000)	0.43
Outstanding at December 31, 2011	**3,233,334**	**0.72**
Expired	(450,000)	1.52
Forfeited	(135,000)	0.64
Outstanding at June 30, 2012	**2,648,334**	**0.59**
Share options exercisable:		
At January 1, 2011	3,155,000	0.69
At December 31, 2011	2,803,335	0.75
At June 30, 2012	2,518,334	0.59

The Company recognizes compensation expense on share options granted to both employees and non-employees using the fair value method at the date of grant, which the Company records as an expense. The share based payments expense is calculated using the Black-Scholes option pricing model.

The weighted average fair value of options granted and the assumptions used in their determination are as follows:

	Six months ended June 30, 2012	Year ended December 31, 2011
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.20%	3.20%
Expected share price volatility (weighted average)	86.94%	86.94%
Expected option life in years (weighted average)	4.12	4.12
Grant date fair value (weighted average)	CAD 0.53	CAD 0.54

Share based payments expense for the three and six months ended June 30, 2012 was $8 (2011: $114) and $6 (2011: $173).

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

(Expressed in thousands of United States Dollars unless otherwise stated)

20. Commitments

Production Sharing Contracts ("PSC")

ShaMaran holds 33.5% of the issued shares of General Exploration Partners Inc ("GEP") which holds an 80% working interest in the Atrush Block PSC. Marathon Oil Corporation holds the remaining 20% interest with the KRG holding an option to acquire up to a 25% interest in the PSC prior to 180 days after declaration of a commercial discovery. GEP is responsible for 80% of the approved annual work program and budget within the appraisal period now in progress.

The Company entered into a PSC in July 2011 in respect of the Taza Block (formerly Block K42) petroleum exploration and development property also located in Kurdistan. ShaMaran holds a 20% working interest in the Taza PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The KRG holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. The Company had previously been a party to an option agreement in respect of the Taza Block with the KRG and OSIL. ShaMaran and OSIL exercised their option on July 27, 2011 to convert that agreement into the PSC.

All qualifying petroleum costs incurred by the Contractor shall be recovered from a portion of available petroleum production, defined under the terms of the PSCs. All modifications to the PSC's are subject to the approval of the KRG.

The PSCs contemplate minimum financial commitments during the first exploration sub-period and also require the Contractor to fund certain community development, personnel, training, environmental, and technological assistance projects during the period over which the contracts are in effect.

As at June 30, 2012, the outstanding contractual commitments of the Company were as follows:

	For the year ending June 30,				
	2013	**2014**	**2015**	**Thereafter**	**Total**
General Exploration Partners Inc	20,972	-	-	-	20,972
Taza Block PSC	4,417	1,667	833	-	6,917
Office and other	70	-	-	-	70
Total commitments	**25,459**	**1,667**	**833**	**-**	**27,959**

Refer also to note 23.

21. Financial instruments

Financial assets

The financial assets of the Company on the balance sheet dates are as follows:

	Loans and receivables		Available-for-sale investments	
	30 Jun 12	**31 Dec 11**	**30 Jun 12**	**31 Dec 11**
Current assets				
Other receivables	651	105	-	-
Other current assets, excluding prepaid expense	-	68	-	-
Cash and cash equivalents	5,989	49,085	-	-
Total financial assets	**6,640**	**49,258**	**-**	**-**

Financial assets classified as loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less any provision for impairment.

(Expressed in thousands of United States Dollars unless otherwise stated)

Financial assets classified as available-for sale are recognized at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income.

The carrying amount of the Company's financial assets approximates their fair value and none of which are past due.

Financial liabilities

The financial liabilities of the Company on the balance sheet dates are as follows:

	Note	30 Jun 12	31 Dec 11
Current financial liabilities			
Accounts payable and accrued expenses	16	3,528	23,245
Current tax liabilities		50	122
Borrowings	17	10,000	-
Financial liabilities associated with discontinued operations	11	2,092	2,613
Total financial liabilities		**15,670**	**25,980**

Financial liabilities are initially recognized at the fair value of the amount expected to be paid and are subsequently measured at amortized cost using the effective interest rate method. All financial liabilities have been classified as current as payment is expected within the next twelve months.

22. Related party transactions

	Purchases of services three months to June 30,		Purchases of services six months to June 30,		Amounts owing at the reporting dates	
	2012	**2011**	**2012**	**2011**	**30 Jun 12**	**31 Dec 11**
Namdo Management Services Ltd.	97	109	167	176	40	7
Mile High Holdings Ltd.	-	-	-	31	-	19
McCullough O'Connor Irwin LLP	41	39	57	44	25	14
Vostok Naphta Investment Ltd.	3	3	13	3	-	-
Lundin family	360	-	360	-	10,000	-
Lundin Petroleum AB	152	723	324	1,335	56	78
Total	**653**	**874**	**921**	**1,589**	**10,121**	**118**

Namdo Management Services Ltd. is a private corporation owned by a shareholder of the Company which has provided corporate administrative support and investor relation services to the Company.

Mile High Holdings Ltd. is a private corporation associated with a shareholder of the Company which has provided transportation services to the Company in relation to its fundraising activities.

McCullough O'Connor Irwin LLP is a law firm in which an officer of the Company is a partner which has provided legal services to the Company.

Vostok Naphta Investment Ltd. is a corporation traded on the NASDAQ OMX Nordic Exchange in Stockholm (trading symbol VNIL SDB) associated with a shareholder of the Company and which has provided investor relations services to the Company in relation to its fundraising activities in Sweden.

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and six months ended June 30, 2012 of $152 (2011: $723) and $324 (2011: $1,335) were comprised of G&G and other technical service costs of $68 (2011: $47) and $125 (2011: $68), reimbursement for Company travel and related expenses of $1 (2011: $331) and $1 (2011: $609), office rental, administrative and building services of $83 (2011: $116) and $198 (2011: $200), and nil (2011: $229) and nil (2011: $458) relating to a guarantee provided to the KRG on behalf of the Company in respect of its minimum financial commitments, payable semi-annually and charged at a rate of 1.5 % per annum (3.0% prior to July 1, 2010).

The Company received a $10 million loan from the Lundin family through two investment companies who jointly are principal shareholders of the Company (the "Lenders"). In connection with the loan the Company has issued to the Lenders an aggregate of 3,000,000 common shares of the Company. The fair value of the shares issued is being amortized as a finance cost over the six month loan period. Refer also to notes 8, 17 and 18.

All transactions with related parties are in the normal course of business and are made on the same terms and conditions as with parties at arm's length.

23. Events after the balance sheet date

On August 20, 2012 the Company announced that it had sold its entire 20% undivided participating interest in the Taza PSC, held by the fully-owned subsidiary ShaMaran Petroleum B.V., to a subsidiary of Total S.A. for the cash sum of $48 million plus a reimbursement of costs incurred on joint operations from April 1, 2012 until the closing date.

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STOCK EXCHANGE LISTINGS
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Trading Symbol: SNM

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