AMENDED

ShaMaran Petroleum Corp

Audited Consolidated Financial Statements

For the year ended December 31, 2011

Auditor's Report

19 April 2012

Independent Auditor's Report
To the Shareholders of ShaMaran Petroleum Corp

We have audited the accompanying consolidated financial statements of ShaMaran Petroleum Corp, which comprise the consolidated balance sheet as at 31 December 2011, 31 December 2010 and 1 January 2010 and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the years ended 31 December 2011 and 31 December 2010, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of ShaMaran Petroleum Corp as at 31 December 2011, 31 December 2010 and 1 January 2010 and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Company's ability to continue as a going concern. Although the Company is confident that it will be able to raise sufficient funds, there is no assurance that financing initiatives which the company will pursue will be successful. The lack of sufficient committed funding for the next 12 months indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
London

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SHAMARAN PETROLEUM CORP.

Consolidated Statement of Comprehensive Income

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

	Note	For the year ended December 31, 2011	2010
Expenses from continuing operations			
General and administrative expenses	7	(1,082)	(594)
Share based payments	19	(264)	(570)
Depreciation and amortisation expense		(221)	(139)
Impairment losses	8	(207,504)	-
Share of loss of associate	15	(271)	(27)
Operating loss		**(209,342)**	**(1,330)**
Finance costs	9	(1,777)	(1,353)
Finance income	10	518	2,631
Net finance (costs) / income		**(1,259)**	**1,278**
Loss before income tax expense		**(210,601)**	**(52)**
Income tax expense	11	(137)	(81)
Net loss from continuing operations		**(210,738)**	**(133)**
Discontinued operations			
Loss from discontinued operations	12	(201)	(960)
Net loss for the year		**(210,939)**	**(1,093)**
Other comprehensive income:			
Currency translation differences		(23)	1
Total other comprehensive income / (loss)		**(23)**	**1**
Total comprehensive loss for the year		**(210,962)**	**(1,092)**
Earnings per share:			
Continuing operations			
Basic and diluted	18	(0.31)	-
Discontinued operations			
Basic and diluted	18	-	-
Continuing and discontinued operations			
Basic and diluted	18	(0.31)	-

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

SHAMARAN PETROLEUM CORP.

Consolidated Balance Sheet

(Expressed in thousands of United States Dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Non-current assets				
Intangible assets	13	45,836	149,892	185,035
Property, plant and equipment	14	382	330	145
Investment in associate	15	51,835	44,282	-
		98,053	**194,504**	**185,180**
Current assets				
Other current assets		647	447	376
Inventories	16	3,328	2,656	-
Other receivables		105	124	31
Cash and cash equivalents		49,085	58,684	63,565
		53,165	**61,911**	**63,972**
Assets associated with discontinued operations	12	**21**	**74**	**847**
Total assets		**151,239**	**256,489**	**249,999**
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	17	23,245	5,156	2,087
Current tax liabilities		122	103	12
Deferred consideration	15	-	12,643	-
		23,367	**17,902**	**2,099**
Non-current liabilities				
Other long-term liabilities		-	-	170
		-	**-**	**170**
Liabilities associated with discontinued operations	12	**2,613**	**3,069**	**3,167**
Total liabilities		**25,980**	**20,971**	**5,436**
Equity				
Share capital	18	533,349	432,506	379,673
Equity share rights	13	-	-	61,349
Share based payments reserve		3,828	3,968	3,405
Cumulative translation adjustment		(18)	5	4
Accumulated deficit		(411,900)	(200,961)	(199,868)
Total equity		**125,259**	**235,518**	**244,563**
Total liabilities and equity		**151,239**	**256,489**	**249,999**

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

The amended financial statements were approved by the Board of Directors and authorized for issue on April 19, 2012 and signed on its behalf:

/s/Cameron Bailey — J. Cameron Bailey, Director

/s/Keith Hill — Keith C. Hill, Director

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

	Share capital	Equity share rights	Share based payments reserve	Cumulative translation adjustment	Accumulated deficit	Total
Balance at January 1, 2010	**379,673**	**61,349**	**3,405**	**4**	**(199,868)**	**244,563**
Total comprehensive loss for the year	-	-	-	1	(1,093)	**(1,092)**
Transactions with owners in their capacity as as owners:						
Shares issued on acquisition	5,000	-	-	-	-	**5,000**
Private placement	48,492	-	-	-	-	**48,492**
Transaction costs	(679)	-	-	-	-	**(679)**
Share-based payments	-	-	570	-	-	**570**
Share options exercised	20	-	(7)	-	-	**13**
	52,833	-	563	-	-	**53,396**
Release of rights to equity shares	-	(61,349)	-	-	-	**(61,349)**
Balance at December 31, 2010	**432,506**	**-**	**3,968**	**5**	**(200,961)**	**235,518**
Total comprehensive loss for the year	-	-	-	(23)	(210,939)	**(210,962)**
Transactions with owners in their capacity as as owners:						
Private placements	101,953	-	-	-	-	**101,953**
Transaction costs	(2,175)	-	-	-	-	**(2,175)**
Share-based payments	-	-	264	-	-	**264**
Share options exercised	1,065	-	(404)	-	-	**661**
	100,843	-	(140)	-	-	**100,703**
Balance at December 31, 2011	**533,349**	**-**	**3,828**	**(18)**	**(411,900)**	**125,259**

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

SHAMARAN PETROLEUM CORP.
Consolidated Statement of Cash Flows
(Expressed in thousands of United States Dollars)

	Note	For the year ended December 31, 2011	2010
Operating activities			
Net loss for the year from continuing operations		(210,738)	(133)
Adjustments for:			
Interest income		(518)	(416)
Foreign exchange loss / (gain)	9, 10	862	(2,215)
Depreciation and amortisation expense		221	139
Income tax		19	91
Impairment losses	8	207,504	-
Share-based payment expense	19	264	570
Share of loss of associates	15	271	27
Capitalized expenses		(1,656)	-
Changes in trade and other receivables		19	(93)
Changes in other current assets		(200)	(71)
Changes in inventories		(1,915)	(2,656)
Changes in accounts payable and accrued expenses		18,089	3,069
Cash used in discontinued operations		(1,682)	(562)
Net cash inflows / (outflows) from operating activities		**10,540**	**(2,250)**
Investing activities			
Exploration, evaluation and other intangible assets		(100,087)	(26,376)
Property, plant and equipment		(735)	(324)
Investment in associate		(20,467)	(26,666)
Interest received on cash deposits		518	416
Cash provided by discontinued operations		1,078	277
Net cash outflows to investing activities		**(119,693)**	**(52,673)**
Financing activities			
Proceeds net of costs on issuance of shares		100,439	47,826
Net cash inflows from financing activities		**100,439**	**47,826**
Effect of exchange rate changes on cash and cash equivalents		(885)	2,216
Change in cash and cash equivalents		**(9,599)**	**4,881**
Cash and cash equivalents, beginning of the year		58,684	63,565
Cash and cash equivalents, end of the year		**49,085**	**58,684**

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 2601 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia V6C 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 adoption of IFRS

The Canadian Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("Canadian GAAP") for publicly accountable enterprises effective for financial periods commencing on or after January 1, 2011. In these financial statements the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Accordingly, these consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of annual financial statements, including *IFRS 1, First-time Adoption of IFRS,* as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

In accordance with regulatory request the Company has amended these consolidated financial statements to present on the balance sheet the statement of financial position on the date of transition to IFRS, information which was disclosed in note 5 in the financial statements approved on March 28, 2012.

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities that are recognized at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding at the date these financial statements were approved for issuance by the Board of Directors.

These consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2010 prepared in accordance with Canadian GAAP. Disclosures of IFRS information for the year ended December 31, 2010 are included in note 5.

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 $49.1 million of cash and cash equivalents as at December 31, 2011 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.

The Company believes that based on the forecasts and projections they have prepared and a number of financing initiatives which will be pursued as required the Company and its subsidiaries will have sufficient resources to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months. Although the Company is confident that it will be able to raise sufficient funds there is no assurance at the date these financial statements were approved that these financing initiatives will be successful. The lack of sufficient committed funding for the next 12 months indicates a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not include the adjustments that would result if the Company is unable to continue as a going concern. Refer also to note 23.

3. Significant accounting policies

The preparation of these consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the annual consolidated financial statements at December 31, 2010 prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS. The impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows including the nature of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 is included in note 5.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

Intercompany balances and unrealized gains and losses on intercompany transactions are eliminated upon consolidation.

(b) Investments in associates

Associates are entities over which the Company is in a position to exert significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or jointly control those policies.

Investments in associates are accounted for using the equity method whereby investments are initially recognized at cost and subsequently adjusted by the Company's share of the associate's post acquisition profits or losses and movements in other comprehensive income. Losses of an associate in excess of the Company's interest in that associate are recognized only to the extent that the Company has incurred legal or constructive obligations to make payments on behalf of the associate.

Any excess of the cost of the acquisition over the Company's share of the fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. If the carrying value of the investment is greater than its recoverable amount the impairment loss is recognized directly in the statement of comprehensive income.

Where a group company transacts with an associate of the Company unrealized gains are eliminated to the extent of the Company's interest in the relevant associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred in which case appropriate provision for impairment is made.

The Company assesses at each year-end whether there is any objective evidence indicating that the carrying value of its interests in associates may exceed its recoverable amount. If impaired the carrying value of the Company's investment in associates is written down to its estimated recoverable amount, the higher of the fair value less cost to sell and value in use with a provision for impairment recorded in the statement of comprehensive income during the period of impairment.

(c) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

Where the Company undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other joint ventures are recognized in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets and its share of the joint venture expenses are recognized when it is probable that the economic benefit associated with the transactions will flow to/from the Company and the amount can be reliably measured.

(d) Business combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred is measured at the aggregate of the fair values at the date of acquisition of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognized at their fair value at the acquisition date.

(e) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell.

The results of a component of the Company that represent a major line of business or geographical area of operations that has either been disposed of (by sale, abandonment or spin-off) or is classified as held for sale is reported as discontinued operations. The financial statements of the Company include amounts and disclosures pertaining to discontinued operations in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.*

(f) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional and presentation currency of the Company is United States Dollars.

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet;
- Income and expenses are translated at the average exchange rate for the period in which they were incurred as a reasonable approximation of the cumulative effect of rates prevailing on transaction dates; and
- All resulting exchange differences are recognized in other comprehensive income as part of the cumulative translation reserve.

Transactions and balances

Transactions in currencies other than the functional currency are recorded in the functional currency at the exchange rates prevailing on the dates of the transactions or valuation where items are re-measured. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences are recognized in the statement of comprehensive income during the period in which they arise.

(g) Exploration and evaluation costs and other intangible assets

Exploration and evaluation assets

The Company applies the full cost method of accounting for exploration and evaluation (E&E) costs in accordance with the requirements of *IFRS 6 Exploration for and Evaluation of Mineral Resources*. All costs of exploring and evaluating oil and gas properties are accumulated and capitalized to the relevant property contract area and are tested on a cost pool basis as described below.

Pre-license costs:

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the statement of comprehensive income.

Exploration and evaluation costs:

All E&E costs are initially capitalized as E&E assets and include payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

Tangible assets used in E&E activities such as the Company's vehicles, drilling rigs, seismic equipment and other property, plant and equipment ("PP&E") used by the Company's exploration function are classified as PP&E. To the extent that such tangible assets are consumed in exploring and evaluating a property the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead including the depreciation of PP&E utilized in E&E activities together with the cost of other materials consumed during the E&E phases such as tubulars and wellheads.

E&E costs are not depreciated prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities:

E&E assets are carried forward until a contractual area is capable of commercial development and are then assessed for impairment. The carrying value of the E&E assets after any impairment loss is then reclassified as oil and gas assets within PP&E. E&E assets that are not capable of commercial development remain capitalized at cost less accumulated amortisation and are subject to the impairment test set out below. Such E&E assets are depreciated on a unit of production basis over the life of the commercial reserves attributed to the cost pool to which they relate.

Other intangible assets

Other intangible assets that have finite useful lives such as computer software licenses are measured at cost and amortized over their expected useful economic lives as follows:

- Computer software 3 years

(h) Property, plant and equipment ("PP&E")

Oil and gas assets

Oil and gas assets comprise of development and production costs for areas where technical feasibility and commercial viability have been established and include any E&E assets transferred after conclusion of appraisal activities as well as costs of development drilling, completion, gathering and production infrastructure, directly attributable overheads, borrowing costs capitalized, and the cost of recognizing provisions for future restoration and decommissioning. Oil and gas costs are accumulated separately for each contract area.

Depreciation of oil and gas assets:

Oil and gas assets are depreciated using the unit of production method based on proved and probable reserves using estimated future prices and costs and taking into account future development expenditures necessary to bring those reserves into production.

Other property, plant and equipment

Property, plant and equipment assets excluding oil and gas assets described above are carried at cost less accumulated depreciation and any recognized impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets' carrying value or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

The carrying amount of an item of PP&E is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income during the period.

Depreciation and amortisation is provided to expense the cost of the PP&E assets on a straight-line basis over their estimated useful lives on the followed bases:

- Furniture, fixtures and office equipment over 5 years
- Computer and information technology assets over 3 years

(i) Impairment of non-financial assets:

E&E assets and oil and gas assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.
- extended decreases in prices or margins for oil and gas commodities or products
- a significant downwards revision in estimated volumes or an upward revision in future development costs.

For the purpose of impairment testing the assets are aggregated into cash generating unit ("CGU") cost pools based on their ability to generate largely independent cash flows. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Where conditions giving rise to the impairment subsequently reverse the effect of the impairment charge is also reversed as a credit to the statement of comprehensive income net of any depreciation that would have been charged since the impairment.

(j) Revenue recognition

Revenues from the sale of hydrocarbons are recognized when title passes to an external party and collection is reasonably assured which is normally upon delivery of products and customer acceptance.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

(k) Taxation

The income tax expense comprises current income tax and deferred income tax.

The current income tax is the expected tax payable on the taxable income for the period. It is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and includes any adjustment to tax payable in respect of previous years.

Deferred income tax is the tax recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and is accounted for using the balance sheet liability method. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the accounting profit nor loss.

Deferred income tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that are expected to apply in the year when the deferred tax liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity in which case the deferred tax is also recognized directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(l) Inventories

Inventories of drilling equipment and consumable materials, which normally include casing, tubing, downhole tools and wellhead equipment, are stated at the lower of cost or net realizable value and determined on a first-in, first-out ("FIFO") method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Financial instruments

Financial assets and liabilities are recognized in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the contractual rights to cash flows from the assets expire or the Company transfers the financial asset and substantially all the risks and rewards of ownership. The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Classification and measurement

The Company classifies its financial assets and liabilities at initial recognition in the following categories:

- Financial assets and liabilities at fair value through profit or loss are those assets and liabilities acquired principally for the purpose of selling or repurchasing in the short-term and are recognized at fair value. Transaction costs are expensed in the statement of comprehensive income and gains or losses arising from changes in fair value are also presented in the statement of comprehensive income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.
- Available-for-sale investments are non-derivative financial instruments that are designated in this category or not classified in any other category. They usually comprise marketable securities and investments in debt and equity securities. Available-for-sale investments are initially recognized and subsequently measured at fair value. Gains and losses arising from changes in the fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current unless the investment matures within the next twelve months or management expects to dispose of them within twelve months. Interest on available-for-sale investments is calculated using the effective interest method and is recognized in the statement of comprehensive income within interest income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as other gains and losses when the company's right to receive payment is established. When an available-for-sale investment is sold or impaired the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of comprehensive income within other gains and losses.

- Loans and receivables comprise of trade receivables and cash and cash equivalents and are financial assets with fixed or determinable payments that are not quoted on an active market and are generally included within current assets due to their short-term nature. 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.
- Financial liabilities at amortized cost comprise of trade and other payables and 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. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence indicating that a financial asset is impaired including:

- Significant financial difficulty of the issuer.
- A breach of contract such as delinquency in interest or principal payments.
- Active market for that financial asset disappears because of financial difficulties
- Observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets.

If evidence of impairment exists the Company recognizes an impairment loss in the statement of comprehensive income as follows:

- Financial assets carried at amortized cost - the impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows discounted using the instrument's effective interest rate.
- Available for sale financial assets – the impairment loss is the difference between the original cost of the asset and its fair value at the measurement date less any impairment losses previously recognized in the statement of comprehensive income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity investments are not reversed.

(n) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits and other short-term liquid investments that are readily convertible to a known amount of cash with three months or less maturity.

(o) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event when it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimates to settle the present obligation its carrying amount is the present value of those cash flows.

Decommissioning and site restoration

Provisions for decommissioning and site restoration are recognized when the Company has a present legal or constructive obligation to dismantle and remove production, storage and transportation facilities and to carry out site restoration work. The provision is calculated as the net present value of the Company's share of the expenditure expected to be incurred at the end of the producing life of each field using a discount rate that reflects the market assessment of the time value of money at that date. Unwinding of the discount on the provision is charged to the statement of comprehensive income within finance costs during the period. The amount recognized as the provision is included as part of the cost of the relevant asset and is charged to the statement of comprehensive income in accordance with the Company's policy for depreciation and amortisation.

Changes in the estimated timing of decommissioning and site restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the relevant asset.

(p) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. The fair value of the equity settled share-based payments is measured at the date of grant and is expensed using the graded method of amortisation over the period in which the recipients become fully entitled to the equity instrument (the "vesting period"). The cumulative expense recognized for equity-settled share-based payments at each balance sheet date, represents the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for the period and the corresponding adjustment to contributed surplus during the period represents the movement in the cumulative expense recognized for all equity instruments expected to vest. The fair value of equity-settled share-based payments is determined using the Black-Scholes option pricing model.

(q) Pension obligations

Pensions are the most common long-term employee benefit. The pension schemes are funded through payments to insurance companies. The Company's pension obligations consist of defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as an expense when they are due.

(r) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

(s) Accounting standards issued but not yet applied

IFRS 7: Financial Instruments: Disclosures – In 2011, IASB issued amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

IFRS 10: Consolidated Financial Statements – In 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 11: Joint Arrangements – In 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 12: Disclosure of Interests in Other Entities – In 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 13: Fair Value Measurement – In 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013.

IAS 1: Presentation of Items of Other Comprehensive Income – In 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012.

IAS 27: Separate Financial Statements – The IASB issued amendments to IAS 27 Separate Financial Statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements.

IAS 28: Investments in Associates and Joint Ventures – The IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11.

The Company is currently assessing the impact, if any, that the adoption of these standards will have on its financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management has made judgments, estimates and assumptions about the carrying amounts of the assets, liabilities, revenues, expenses and related disclosures. These estimates and associated assumptions are based on historical experience, current trends, and other factors that management believes to be relevant at the time these consolidated financial statements were prepared. Actual results may differ as future events and their effects cannot be determined with certainty and such differences could be material. Management reviews the accounting policies, underlying assumptions, estimates and judgments on an on-going basis to ensure that the financial statements are presented fairly in accordance with IFRS.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies in these consolidated financial statements:

(a) Oil and gas reserves

The business of the Company is the exploration and development of oil and gas reserves in Kurdistan. Estimates of commercial oil and gas reserves are used in the calculations for impairment, depreciation and amortisation and decommissioning provisions. Changes in estimates of oil and gas reserves resulting in different future production profiles will affect the discounted cash flows used for impairment purposes, the anticipated date of site decommissioning and restoration, and the depreciation charges based on the unit of production method.

In March 2011, the Company commissioned an independent reserves and resources report from McDaniel & Associates to estimate the Company's reserves and resources at December 31, 2010. The reserves and resources estimates provided in the report were used in the calculations for impairment, depreciation and amortisation and decommissioning provisions within these consolidated financial statements.

(b) Impairment of E&E and PP&E assets

IAS 36 Impairment of Assets and *IFRS 6 Exploration of and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amounts are determined with reference to value in use calculations. The key assumptions for the value in use calculations are those regarding production flow rates, discount rates, and fiscal terms under the Production Sharing Contracts governing the Company's assets and expected changes to selling prices and direct costs during the period. These assumptions reflect management's best estimates based on historical experiences, past practices and expectations of future changes in the oil and gas industry.

(c) Decommissioning and site restoration provisions

The Company recognizes a provision for decommissioning and site restoration costs expected to be incurred in order to remove and dismantle production, storage and transportation facilities and to carry out site restoration work. The provisions are estimated taking into consideration existing technology and current prices after adjusting for expected inflation and discounted using rates reflecting current market assessments of the time value of money and where appropriate, the risks specific to the liability. The Company makes an estimate based on its experience and historical data. Refer also to note 12.

(d) Share-based payments

The Company issues equity-settled share-based payments to certain directors, employees and third parties. In accordance with *IFRS 2 Share-based payments*, in determining the fair value of options granted, the Company has applied the Black-Scholes model and as a result makes assumptions for the expected volatility, expected life, risk-free rate, behavioral considerations and expected dividend yield. The fair value of options granted at December 31, 2011 is shown in note 19.

5. Transition to IFRS

The accounting policies indicated in note 3 have been applied in preparing these consolidated financial statements for the year ended December 31, 2011, the comparative information for year ended December 31, 2010 and the opening IFRS consolidated balance sheet on the transition date, January 1, 2010.

In preparing the opening IFRS consolidated balance sheet within these consolidated financial statements the Company has adjusted amounts previously reported in accordance with Canadian GAAP within the comparative financial information for the year ended December 31, 2010.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), provides certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company has transitioned to IFRS in accordance with IFRS 1 and has chosen to apply no optional exemptions.

The following disclosures demonstrate and explain how the Company's financial position, financial performance and cash flows have been affected by the transition to IFRS from Canadian GAAP:

(a) Reconciliation of assets and liabilities previously reported under Canadian GAAP ("CGAAP") to IFRS is as follows:

		At December 31, 2010			At January 1, 2010		
	Note 5 (c)	**CGAAP**	**Adj.**	**IFRS**	**CGAAP**	**Adj.**	**IFRS**
Assets							
Non-current assets							
Intangible assets	i.	-	149,892	149,892	-	185,035	185,035
Property, plant and equipment	i.	150,222	(149,892)	330	185,180	(185,035)	145
Investments in associate		44,282	-	44,282	-	-	-
		194,504	**-**	**194,504**	**185,180**	**-**	**185,180**
Current assets							
Other current assets		447	-	447	376	-	376
Inventories		2,656	-	2,656	-	-	-
Other receivables		124	-	124	31	-	31
Cash and cash equivalents		58,684	-	58,684	63,565	-	63,565
		61,911	**-**	**61,911**	**64,972**	**-**	**63,972**
Assets associated with discontinued operations		**74**	**-**	**74**	**847**	**-**	**847**
Total assets		**256,489**	**-**	**256,489**	**249,999**	**-**	**249,999**
Liabilities							
Current liabilities							
Accounts payable and accrued expenses		5,156	-	5,156	2,087	-	2,087
Current tax liabilities		103	-	103	12	-	12
Deferred consideration		12,643	-	12,643	-	-	-
		17,902	**-**	**17,902**	**2,099**	**-**	**2,099**
Non-current liabilities							
Other long-term liabilities		-	-	-	170	-	170
		-	**-**	**-**	**170**	**-**	**170**
Liabilities associated with discontinued operations		**3,069**	**-**	**3,069**	**3,167**	**-**	**3,167**
Total liabilities		**20,971**	**-**	**20,971**	**5,436**	**-**	**5,436**
Equity							
Share capital		432,506	-	432,506	379,673	-	379,673
Equity share rights		-	-	-	61,349	-	61,349
Share based payments reserve	ii	3,867	101	3,968	3,360	45	3,405
Cumulative translation adjustment		5	-	5	4	-	4
Accumulated deficit	ii	(200,860)	(101)	(200,961)	(199,823)	(45)	(199,868)
Total equity		**235,518**	**-**	**235,518**	**244,563**	**-**	**244,563**
Total liabilities and equity		**256,489**	**-**	**256,489**	**249,999**	**-**	**249,999**

(b) Reconciliation of comprehensive income as previously reported under Canadian GAAP ("CGAAP") to IFRS is as follows:

	Note 5(c)	Year ended December 31, 2010 CGAAP	Adj.	IFRS
Continuing operations				
General and administrative expenses		(594)	-	(594)
Share based payments	ii	(514)	(56)	(570)
Depreciation and amortisation expense		(139)	-	(139)
Share of loss of associate		(27)	-	(27)
Operating loss		**(1,274)**	**(56)**	**(1,330)**
Finance costs		(1,353)	-	(1,353)
Finance income		2,631	-	2,631
Net finance income		**1,278**	**-**	**1,278**
Income / (loss) before income tax expense		**4**	**(56)**	**(52)**
Income tax expense		(81)	-	(81)
Net loss from continuing operations		**(77)**	**(56)**	**(133)**
Discontinued operations				
Loss from discontinued operations		(960)	-	(960)
Net loss for the year		**(1,037)**	**(56)**	**(1,093)**
Other comprehensive income:				
Currency translation differences		1	-	1
Total other comprehensive income		**1**	**-**	**1**
Total comprehensive loss for the year		**(1,036)**	**(56)**	**(1,092)**
Earnings per share:				
Continuing operations				
Basic and diluted		-	-	-
Discontinued operations				
Basic and diluted		-	-	-
Continuing and discontinued ops.				
Basic and diluted		-	-	-

(c) The following IFRS conversion adjustments have been adopted by the Company in order to present these consolidated financial statements in accordance with IFRS.

i. In accordance with *IFRS 6 Exploration for and evaluation of Mineral Resources* the Company's accounting policy is to record as E&E assets those costs of exploring and evaluating oil and gas properties including payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition and exploratory drilling and testing. Under Canadian GAAP these costs were included within PP&E as petroleum properties. Accordingly, the conversion from Canadian GAAP to IFRS has increased intangible assets and reduced PP&E by $185.0 million at January 1, 2010 and $149.9 million at December 31, 2010.

ii. *IFRS 2 Share-based payments* requires that the cost of equity-settled share-based payments granted to directors, employees and other third parties is expensed over the vesting period using the graded method of amortisation rather than a straight-line method which was the method used by the Company under Canadian GAAP. As a result the conversion from Canadian GAAP to IFRS has increased the share based payments reserve and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $56 for the year ended December 31, 2010.

(d) The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company over the reporting periods ended January 1, 2010 and December 31, 2010.

6. 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 12 for disclosure of the Company's discontinued operations.

7. General and administrative expenses

	For the year ended December 31,	
	2011	**2010**
General and administrative expenses incurred	8,622	5,417
General and administrative expenses capitalized as E&E assets	(7,540)	(4,823)
General and administrative expenses	**1,082**	**594**

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 13.

8. Impairment losses

	For the year ended December 31,	
	2011	**2010**
Write down drilling inventory to net realizable value	1,243	-
Provision for impairment of exploration and evaluation assets	205,862	-
Write down of property, plant and equipment to liquidation values	399	-
Total impairment losses	**207,504**	**-**

The above indicated losses relate to the suspension in December 2011 of all operations in the Pulkhana and Arbat Blocks and to the subsequent relinquishment of the Pulkhana and Arbat production sharing contracts completed January 17, 2012. Refer also to notes 13, 14, 16, 20 and 23.

9. Finance cost

	For the year ended December 31,	
	2011	**2010**
Guarantee fees	915	1,353
Foreign exchange loss	862	-
	1,777	**1,353**

Guarantee fees relate to a guarantee provided by Lundin Petroleum AB, a shareholder of the Company, 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. Prior to July 2010 the rate was 3% per annum. Refer also to note 22 for related party disclosures.

For the year ended December 31, 2011 the foreign exchange loss of $862 resulted primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting period against the United States dollar which is the reporting currency of the Company.

10. Finance income

	For the year ended December 31, 2011	2010
Interest income	518	416
Foreign exchange gain	-	2,215
	518	**2,631**

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

For the year ended December 31, 2010 the foreign exchange gain of $2.2 million 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.

11. Taxation

(a) Income tax expense

The provision for income taxes reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

	For the year ended December 31, 2011	2010
Loss from continuing operations before income tax	(210,601)	(52)
Corporate income tax rate	26.5%	30.0%
Computed income tax recovery	(55,809)	(23)
Increase / (decrease) resulting from:		
Non-taxable foreign exchange gain	228	(664)
Share issuance costs charged to share capital	(583)	(204)
Non-deductible compensation expense	70	154
Foreign tax rate differences	13,474	182
Effect of change in tax rates	54	233
Change in valuation allowance	42,064	586
Effect of changes in foreign exchange rates	110	(200)
Other	529	17
Income tax expense from continuing operations	**137**	**81**

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.

The components of the future income tax assets are as follows:

	For the year ended December 31, 2011	2010
Non-capital losses	104,218	61,715
Share issue costs carried forward	1,098	1,447
Properties-tax basis over carrying value	1,279	1,279
Exploration expenses	784	803
Future income tax assets before allowance	107,379	65,244
Valuation allowance	(107,379)	(65,244)
Future income tax assets	-	-

(b) Tax losses carried forward

The Company has tax losses and costs which are available to apply to future taxable income as follows:

	For the year ended December 31, 2011	2010
Canadian losses from operations	15,948	10,774
Canadian exploration expenses	3,134	3,210
Canadian unamortized share issue costs	4,199	5,606
Dutch losses from operations	207,138	1,446
U.S. Federal losses from operations	168,008	167,807
U.S. Federal – tax basis in excess of carrying values of properties	3,654	3,654
Total	**402,081**	**192,497**

The Canadian losses from operations may be used to offset future Canadian taxable income and will expire over the period from 2016 to 2031. The Canadian exploration expenses may be carried forward indefinitely to offset future taxable Canadian income. Canadian unamortized share issue costs may offset future taxable Canadian income of years 2012 to 2015. The U.S. Federal losses are available to offset future taxable income in the United States through 2031.

12. 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:

	For the year ended December 31, 2011	2010
Expenses		
General and administrative, other	201	698
Revision to asset retirement obligation	1,078	339
Operating loss	**1,279**	**1,037**
Gain on disposal of assets	**1,078**	**77**
Net loss attributable to discontinued operations	**201**	**960**

During the year ended December 31, 2010 the remaining inventories in the United States from discontinued operations were sold for gross proceeds of $0.3 million resulting in a gain on asset disposals of $0.1 million.

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

	2011	2010
Assets		
Trade and other receivables	-	59
Other assets	21	15
	21	**74**
Liabilities		
Trade payables and accrued expenses	539	1,378
Provision	2,074	1,691
	2,613	**3,069**
Net liabilities	**2,592**	**2,995**

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.

13. Intangible assets

	Exploration and evaluation assets	Other intangible assets	Total
At January 1, 2010			
Cost	184,953	84	185,037
Accumulated amortisation	-	(2)	(2)
Net book value	**184,953**	**82**	**185,035**
For the year ended December 31, 2010			
Opening net book value	184,953	82	185,035
Additions	26,088	186	26,274
Release of rights to equity shares	(61,349)	-	(61,349)
Amortisation expense	-	(61)	(61)
Exchange differences	-	(7)	(7)
Net book value	**149,692**	**200**	**149,892**
At December 31, 2010			
Cost	149,692	270	149,962
Accumulated amortisation	-	(70)	(70)
Net book value	**149,692**	**200**	**149,892**
For the 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)
Provision for impairment	(205,861)	-	(205,861)
Net book value	**45,725**	**111**	**45,836**

The PSCs governing the Company's petroleum properties in Kurdistan allow the Company to include within petroleum costs an annual exploration overhead charge calculated on a sliding scale percentage of annual exploration costs. The exploration overhead charge qualifies as recoverable petroleum costs under the term of the PSCs and will be recovered from a portion of available petroleum production (produced oil less royalty oil) in the future. Exploration overhead charges of $1.7 million were capitalized during year ended December 31, 2011 (2010: $0.6 million). The cumulative total exploration overhead charge included in intangible E&E assets was $2.5 million at December 31, 2011 (2010: $0.8 million). Refer also to note 7.

In August 2010 the Company executed agreements with the Kurdistan Regional Government ("KRG") to amend the Pulkhana Block 10 and the Arbat Block PSCs relieving the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG. As a result during 2010 an adjustment was made to reduce the carrying value of the Company's exploration and evaluation assets by $61,349,000 representing the amount previously capitalized in relation to this right to receive equity shares. Refer also to note 17.

On July 26, 2011 the Company entered into a PSC in respect of the Taza Block (formerly Block K42) in Kurdistan. Pursuant to the terms of the PSC the Company paid a $20 million capacity building bonus in September 2011.

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 a provision to expense all exploration and evaluation expenses, 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 8 and 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.

14. Property, plant and equipment

	Oil and Gas equipment	Computer equipment	Furniture and office equipment	Total
At January 1, 2010				
Cost	-	121	29	150
Accumulated depreciation	-	(4)	(1)	(5)
Net book value	**-**	**117**	**28**	**145**
For the year ended December 31, 2010				
Opening net book value	-	117	28	145
Additions	-	82	189	271
Depreciation expense	-	(55)	(23)	(78)
Exchange differences	-	(7)	(1)	(8)
Net book value	**-**	**137**	**193**	**330**
At December 31, 2010				
Cost	-	203	217	420
Accumulated depreciation	-	(66)	(24)	(90)
Net book value	**-**	**137**	**193**	**330**
For the 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	507	232	203	942
Accumulated depreciation	(160)	(139)	(60)	(359)
Provision for impairment	(174)	(17)	(10)	(201)
Net book value	**173**	**76**	**133**	**382**

As a result of the decision to relinquish the Pulkhana and Arbat PSCs the Company has determined that at December 31, 2011 there is an impairment in value of certain property plant and equipment employed in the exploration operations associated with these production sharing contracts and has recorded a provision for impairment on these assets. Refer also to notes 8 and 23.

The impairment provision remaining at year end reflects the impairment losses incurred during the year less the book value of those impaired assets disposed of during the year.

15. Investment in associate

On August 27, 2010 ShaMaran Ventures BV, a wholly owned subsidiary of the Company entered into a Subscription Agreement and a Shareholders' Agreement with Aspect Energy International, LLC ("Aspect") to acquire 33.5% of the fully-diluted share capital of General Exploration Partners Inc ("GEP"), a wholly owned subsidiary of Aspect. GEP holds an 80% working interest in the Production Sharing Contract ("PSC") in respect of the Atrush Block oil and gas Exploration Area located in Kurdistan.

The total consideration exchanged for the investment in GEP was $45.1 million comprised of cash payments totaling $24.3 million, share consideration of $5.0 million representing 12.5 million shares of the Company and an obligation to contribute the next $15.8 million in cash required to fund GEP's oil exploration and development operations which will be repaid on a first in first out basis from a portion of available petroleum production in the future. During the year ended December 31, 2011 the Company completed payment of this obligation. The investment has been accounted for using the equity method.

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

	2011	2010
Cumulative cash contributions	47,827	27,360
Common share contribution	5,000	5,000
Deferred consideration	-	12,643
Acquisition costs	204	204
Share of net losses since acquisition	(298)	(27)
Recovery of costs from partner	(898)	(898)
Total investment in associate	**51,835**	**44,282**

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

	For the year ended December 31,	
	2011	2010
Total loss of associate	(809)	(81)
Company's 33.5% share of loss of associate	**(271)**	**(27)**

16. Inventories

	2011	2010
Drilling and downhole equipment	4,570	2,656
Provision for impairment	(1,242)	-
Total inventories	**3,328**	**2,656**

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 its decision in December 2011 to suspend all operations associated with these drilling programs. Refer also to notes 8 and 23.

17. Accounts payable and accrued expenses

	2011	2010
Trade accounts payable	17,409	879
Accrued expenses	4,379	4,263
Net payables to joint venture partners	1,457	14
Total accounts payable and accrued expenses	**23,245**	**5,156**

The accounts payable and accrued expense balance at December 31, 2011 includes charges and estimates directly related to the exploration activities in the amounts of $15.6 million in the Pulkhana Block, $3.0 million in the Arbat Block and $3.2 million in other charges related to other exploration and corporate activities.

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, 2010	**499,546,088**	**379,673**
Corporate acquisition	12,500,000	5,000
Private placement, net of issuance costs	111,111,106	47,813
Share options exercised	25,000	20
Balance at December 31, 2010	**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**

Refer also to note 23.

Equity share rights

In August 2010 the Company executed agreements with the Kurdistan Regional Government to amend the Pulkhana Block 10 and the Arbat Block PSCs. The amendments relieve the Company of its previous contractual requirement to issue 150 million common shares of the Company to the KRG which was comprised of 100 million shares due on signature of the PSCs plus a further 50 million shares due 30 days prior to the expiry of the first exploration sub-period in the Pulkhana Block. In exchange the amendments require the Company to contribute 20% of its profit oil share (produced oil, less royalty and cost oil) from the Pulkhana Block 10 PSC and the Arbat Block PSC as capacity building payments to the Government. Accordingly the amount previously recognized as equity share rights of $61,349,000 was reversed with a corresponding decrease to the cost of the Company's E&E assets. Refer also to note 13.

Earnings per share

The earnings per share amounts were as follows:

	2011	2010
Continuing operations:		
Net loss from continuing operations, in dollars	210,738,707	133,381
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from continuing operations, in dollars	0.31	-
Discontinued operations:		
Net loss from discontinued operations, in dollars	201,189	958,823
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from discontinued operations, in dollars	-	-
Continuing and discontinued operations:		
Net loss from continuing and discontinued operations, in dollars	210,939,896	1,093,204
Weighted average common shares outstanding during the year	677,001,536	536,164,313
Basic and diluted loss per share from continuing and discontinued operations, in dollars	0.31	-

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.

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, 2010	**4,110,000**	**0.82**
Granted	1,390,000	0.51
Exercised	(25,000)	0.48
Cancelled/forfeited	(915,000)	1.20
Outstanding at December 31, 2010	**4,560,000**	**0.65**
Granted	25,000	0.80
Exercised	(1,301,666)	0.49
Cancelled/forfeited	(50,000)	0.43
Outstanding at December 31, 2011	**3,233,334**	**0.72**

The cancelled/forfeited options during the year ended December 31, 2011 were held by an employee who resigned from the Company.

Share options exercisable:		
At January 1, 2010	2,245,000	0.82
At December 31, 2010	3,155,000	0.69
At December 31, 2011	2,803,335	0.75

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 payment 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:

	2011	2010
Expected dividend yield	0%	0%
Risk-free interest rate (weighted average)	3.20%	3.21%
Expected share price volatility (weighted average)	86.94%	86.95%
Expected option life in years (weighted average)	4.12	4.11
Grant date fair value (weighted average)	CAD 0.36	CAD 0.37

Share based payment expense for the year ended December 31, 2011 was $264 (2010: $570).

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.

20. Commitments

Production Sharing Contracts ("PSC")

The Company entered into two PSCs during the year 2009, which govern its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 and the Arbat Block located in the Kurdistan. In addition the Company entered into a third PSC in July 2011 in respect of the Taza Block (formerly Block K42) petroleum exploration and development property also located in Kurdistan.

Under the terms of the Pulkhana PSC, the Company holds a 60% undivided interest in the petroleum operations, Petoil Petroleum and Petroleum Products International Exploration and Production Inc ("Petoil") holds a 20% interest and the remaining 20% is held by the Kurdistan Regional Government (the "KRG"). The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period which is 36 months from the commencement of the PSC with option to extend by one year. Under the terms of the Pulkhana PSC the Company is the operator and collectively with Petoil represent the "Contractor".

The Company holds a 60% undivided interest in the petroleum operations under the terms of the Arbat PSC, while the KRG holds a 20% interest and the remaining 20% is a third party interest which the KRG has the option to assign to a third party or parties. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration sub-period or until such time as the KRG's reserved 20% interest has been sold following which the Company will pay 75% of the forward costs and receive a reimbursement for 25% of the costs incurred to that date. Under the terms of the Arbat PSC the Company is the operator and represents the "Contractor".

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.

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.

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. At any time during the exploration period the Contractor has the right to terminate the PSCs by surrendering the entire contract area. 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 December 31, 2011, the outstanding commitments of the Company were as follows:

	2012	2013	2014	Thereafter	Total
Pulkhana Block PSC	30,000	-	-	-	30,000
Arbat Block PSC	20,000	-	-	-	20,000
General Exploration Partners Inc	27,002	-	-	-	27,002
Taza Block PSC	4,417	1,667	1,667	-	7,751
Office and other	125	-	-	-	125
Total commitments	**81,544**	**1,667**	**1,667**	**-**	**84,878**

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 relinquishment was subsequently completed in January 17, 2012 whereby the Company was released from further obligation under these two PSCs in exchange for payments totaling $25 million. Refer also to notes 8 and 23.

21. Financial instruments

Financial assets

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

		Loans and receivables		Available-for-sale investments	
	Note	**2011**	**2010**	**2011**	**2010**
Current assets					
Other receivables		105	124	-	-
Other current assets, excluding prepaid expense		68	91	-	-
Cash and cash equivalents		49,085	58,684	-	-
Financial assets associated with discontinued operations	12	-	59	-	-
Total financial assets		**49,258**	**58,958**	**-**	**-**

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.

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 explained as follows:

	Note	**2011**	**2010**
Current financial liabilities			
Accounts payable and accrued expenses	17	23,245	5,156
Current tax liabilities		122	103
Deferred consideration	15	-	12,643
Financial liabilities associated with discontinued operations	12	2,613	3,069
Total financial liabilities		**25,980**	**20,971**

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.

Capital risk management

The Company manages its capital to ensure that entities within the Company will be able to continue as a going concern, while maximizing return to shareholders. The Company is not exposed to externally imposed capital requirements. The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. Given the current stage of development of the Company's assets, it is the Company's policy to finance operations through the issuance of equity instruments. Accordingly the Company has no debt at December 31, 2011.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial assets and liability are disclosed in note 3.

Financial risk management objectives

The Company's management monitors and manages the Company's exposure to financial risks facing the operations. These financial risks include market risk (including commodity price, foreign currency and interest rate risks), credit risk and liquidity risk.

The Company does not presently hedge against these risks as the benefits of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

Commodity price risk

The prices that the Company receives for its oil and gas production may have a significant impact on the Company's revenues and cash flows provided by operations. World prices for oil and gas are characterized by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments and in particular the price received for the Company's oil and gas production in Kurdistan is dependent upon the Kurdistan government and its ability to export production outside of Iraq. A significant decline in the price at which the Company can sell future oil and gas production could adversely affect the amount of funds available for capital reinvestment purposes as well as the Company's value in use calculations for impairment test purposes.

The Company does not hedge against commodity price risk, however given that the Company is in the exploration and development stage, it is not exposed to significant commodity price risk.

Foreign currency risk management

The Company maintains a substantial portion of its cash and cash equivalents in Canadian dollars; however, the Company's operations are conducted predominantly in United States dollars. As a result, the Company is exposed to foreign currency risk due to exchange rate fluctuations between the Canadian dollar ("CAD") and the reporting currency of the Company, the United States dollar ("USD").

In addition, Company entities undertake certain transactions denominated in foreign currencies, being any currency other than the functional currency of the Company entity.

The Company has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

The carrying amounts of the Company's principal monetary assets and liabilities denominated in foreign currency at the reporting date are as follows:

	Assets		**Liabilities**	
	2011	**2010**	**2011**	**2010**
Canadian dollars in thousands ("CAD 000")	42,165	50,432	618	90
Swiss francs in thousands ("CHF 000")	685	243	346	597

Foreign currency sensitivity analysis:

The Company is exposed primarily to movements in CAD against the USD, the presentational currency of the Company. Funds are raised through the issuance of equity instruments in CAD and are held in CAD until they are required to fund operations at which time they are converted into USD. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rates between the USD and CAD. The analysis below is based on a strengthening of the USD by 1% against the USD in which the Company has significant assets and liabilities at the end of respective period. A movement of 1% reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 1% change in foreign currency rates.

A positive number in the table below indicates an increase in profit where USD weakens 1% against the CAD on the basis of the CAD assets and liabilities held by the Company at the balance sheet dates. For a 1% strengthening of the USD against the CAD there would be an equal and opposite impact on the profit or loss.

	Assets		**Liabilities**	
	2011	**2010**	**2011**	**2010**
Income statement	408	488	(6)	(1)

Interest rate risk management

The Company earns interest income at variable rates on its cash and cash equivalents and is therefore exposed to interest rate risk due to a fluctuation in short-term interest rates.

The Company's policy on interest rate management is to maintain a certain amount of funds in the form of cash and cash equivalents for short-term liabilities and to have the remainder held on relatively short-term deposits.

Interest rate sensitivity analysis:

Based on exposure to the interest rates for cash and cash equivalents at the balance sheet date a 0.5% increase or decrease would not have a material impact on the Company's profit or loss for the year. A rate of 0.5% is used as it represents management's assessment of the reasonably possible changes in interest rates.

Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is primarily exposed to credit risk on its cash and cash equivalents and trade and other receivables. Trade and other receivables are primarily with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates risks arising from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project.

The Company manages credit risk by monitoring counterparty ratings and credit limits and by maintaining excess cash and cash equivalents on account in instruments having a minimum credit rating of R-1 (mid) or better (as measured by Dominion Bond Rate Services) or the equivalent thereof according to a recognized bond rating service.

The carrying amount of the Company's financial assets recorded in the consolidated financial statements represent the Company's maximum exposure to credit risk.

Liquidity risk management

Liquidity risk is the risk that the Company will have difficulties meeting its financial obligations as they become due. In common with many oil and gas exploration companies, the Company raises financing for its exploration and appraisal activities in discrete tranches in order to finance its activities for limited periods. The Company seeks to raise additional funding as and when required. The Company anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves and as the Company's projects move into the development stage, specific financing, including the possibility of debt, may be required to enable future development to take place. The financial results of the Company will impact its access to the capital markets necessary to undertake or complete future drilling and development programs. There can be no assurance that debt or equity financing, or future cash generated by operations, would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

It is presently the Company's policy to finance its business by means of internally generated funds and external share capital. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Annual capital expenditure budgets are prepared, which are regularly monitored and updated as considered necessary. In addition, the Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

The maturity profile of the Company's financial liabilities are indicated by their classification in the consolidated balance sheet as "current" or "non-current", and further information relevant to the Company's liquidity position is disclosed in the Company's going concern assessment in note 2.

22. Related party transactions

	Purchases of services during the year		Amounts owing at the reporting dates	
	2011	**2010**	**2011**	**2010**
Namdo Management Services Ltd.	361	185	7	-
Mile High Holdings Ltd.	103	152	19	12
McCullough O'Connor Irwin LLP	56	41	14	-
Vostok Naphta Investment Ltd.	24	-	-	-
Lundin Petroleum AB	2,176	2,673	78	214
Total	**2,720**	**3,051**	**118**	**226**

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 year ended December 31, 2011 of $2,176 (2010: $2,673) were comprised of G&G and other technical service costs of $195 (2010: $382), reimbursement for Company travel and related expenses of $611 (2010: $601), office rental, administrative and building services of $455 (2010: $328) and $915 (2010: $1,362) 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).

Included within general and administrative expenses are contributions totalling $1,025 made in the year 2011 (2010: $485) to a charitable foundation whose Chairman is a major shareholder of the Company. Funds from this charity, in part, are used for community investment activity in Kurdistan.

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.

Refer also to note 23.

23. Events after the balance sheet date

On January 17, 2012 the Company signed a final binding agreement with the KRG to relinquish to the KRG the 60% working interests previously held in each of the Arbat and Pulkhana Production Sharing Contracts ("PSC"). Under the terms of the agreement the PSC for each of the Pulkhana and Arbat blocks was terminated whereby ShaMaran's interests in both PSCs were relinquished. On January 25, 2012 the Company paid a total of USD 25 million to the KRG, which will be expensed in 2012, in accordance with the terms of the agreement and relieving the Company of all further obligations under the PSCs.

On April 2, 2012 the Company entered into a debenture financing from two related parties (the "Lenders") in the principal amount of US$10,000,000 (the "Loan") on the following terms and conditions. The Loan will mature and be payable six months after closing of the Loan transaction (the "Maturity Date") and can be prepaid up to the Maturity Date without interest or penalty. Subsequent to the Maturity date 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 Debenture, 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.

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