ShaMaran Petroleum Corp

Financial Report (unaudited)

For the three and nine months ended September 30, 2011 and 2010

Prepared by Management

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

SHAMARAN PETROLEUM CORP.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine month periods ended September 30, 2011 and 2010
(Expressed in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of the financial and operating results of ShaMaran Petroleum Corp. ("ShaMaran" together with its subsidiaries the "Company") is prepared as of November 18, 2011. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements for the three and nine months ended September 30, 2011 together with the accompanying notes. Unless otherwise stated herein all monetary amounts are expressed in US dollars ("USD").

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as required for Canadian public listed entities with year ends beginning on or after January 1, 2011. In reporting periods prior to the year 2011 the Company's financial statements were prepared under Canadian generally accepted accounting principles.

Overview

ShaMaran is a Canadian-based oil and gas company with interests in four petroleum properties located in Kurdistan in Northern Iraq ("Kurdistan"). The Company is currently in the pre-production stages of its exploration and development program relating to the petroleum properties. ShaMaran trades on the TSX Venture Exchange and the NASDAQ OMX First North Exchange (Stockholm) under the symbol "SNM".

Highlights

- A major oil discovery in the Atrush Block was announced by the Company on April 13, 2011. The Atrush 1 well flowed at rates totalling over 6,393 bopd of 26.5 API oil from three tests in the Middle and Upper Jurassic reservoirs and well analysis indicated that the intervals are capable of much higher rates when completed for production. The well was drilled in budget and on time to a total depth of 3,400 meters.
- The Appraisal Work Programme & Budget on the Atrush Block has been submitted to the KRG. The Programme consists of 3D seismic and a number of appraisal wells and studies. 3D seismic acquisition is in progress and the construction of the location for the Atrush-2 appraisal well has commenced. Planning for an Early Production facility is also underway.
- Pulkhana-9 completed well testing and recovered oil from the Shiranish, Jaddala & Euphrates formations. Due to mechanical issues experienced during testing, a geological sidetrack is underway to allow the openhole testing of the two Cretaceous reservoirs (Shiranish & Balambo) which had good hydrocarbon indications. The workover on the Pulkhana-8 well is on-going.
- The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block (formerly Block K42) in the Kurdistan Region of Iraq. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("KRG") holds a 20% working interest in the PSC with costs carried by ShaMaran and OSIL. Planning is underway for an exploration well to be drilled in 2012.

- The Company commenced the acquisition of 2D seismic data on the Arbat Block. The Company will acquire 183 line kilometres of data on the north side of the Block with the objective of defining a closure on a significant lead. The program is expected to be concluded by end of this year.
- Cash proceeds of $CAD 51.0 million were raised by the Company through a private placement of 127.5 million common shares at $CAD 0.40 per share which was concluded on 15, 2011. A 4% finders' fee is payable in cash on a portion of the private placement.
- Cash proceeds of $CAD 50.4 million ($CAD 49.5 million net of issuance costs) were raised by the Company through a private placement of 56 million common shares at $CAD 0.90 per share which was concluded on May 5, 2011.
- Cash balance of the Company was $26.8 million as at September 30, 2011.

Operations in Kurdistan

The Company has direct working interests in each of the Pulkhana Block, the Arbat Block and the Taza Block (formerly Block K42) and has an indirect interest in the Atrush Block. All petroleum properties are located in Kurdistan within the northern extension of the Zagros Folded Belt. The area is currently undergoing a major exploration and development campaign by over 40 mid to large size international oil companies

Atrush Block

The Atrush Block is a 269 square km exploration area in the north of Kurdistan located between the major Shaikan discovery announced by Gulf Keystone Petroleum Ltd. in January 2010 and the HKN Energy Swara Tika discovery. The structures contain multiple stacked oil reservoirs in the Cretaceous, Jurassic and Triassic sections and due to a high-degree of fracturing are capable of high production rates.

In August 2010 the Company acquired a 33.5% shareholding in General Exploration Partners Inc ("GEP"). GEP is the operator of the Atrush Block PSC, holding an 80% working interest in the Block, with the remaining 20% third party interest ("TPI") being held by the KRG. In October 2010, Marathon Oil Corporation was assigned the 20% TPI.

Under the terms of PSC the KRG has the option of participating as a Contractor Entity with an undivided interest in the petroleum operations and all the other rights, duties, obligations and liabilities of the Contractor in the PSC, of up to 25% and not less than 5%. If this option is exercised, the government will become liable for their share of the petroleum costs incurred on or after the first commercial declaration date. Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 30% of profit oil (produced oil, less royalty and cost oil) to be paid to the KRG. GEP has the right to recover costs using up to 40% of the available oil (produced oil less royalty oil) and 55% of the produced gas.

The first exploration well on the Atrush Block was spudded on October 5, 2010 and a total depth of 3,400 meters was reached on January 21, 2011. A comprehensive well testing program consisting of ten drill stem tests (DSTs) commenced on January 30, 2011 and was completed on the April 3, 2011. Following notification to the KRG of a major Jurassic oil discovery on the April 4, 2011 the operator GEP submitted an Appraisal Work Program which consists of 3D seismic, appraisal wells and studies leading to the possible installation of an Early Production facility in 2012. 3D seismic acquisition operations commenced on the block in July 2011 and planning for the Atrush-2 well is currently in progress, with the well location under construction.

Refer also to discussion under "Commitments" in this MD&A.

Pulkhana Block

The Pulkhana Block is a 529 square kilometer appraisal/development area located in southern Kurdistan. In 1956 the Pulkhana-5 discovery well entered two fractured carbonate reservoirs (Euphrates & Shiranish) and flow tested over 2,900 barrels of oil per day.

The Company is the operator of the project with a 60% undivided interest in the production sharing contract. Petoil Petroleum and Petroleum Products International Exploration and Production Inc. retains a 20% interest in the PSC and the KRG holds the remaining 20%. The Company is required to pay 100% of the minimum financial commitment in respect of the first exploration phase, following which the Company will pay 75% of the forward costs.

Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company's profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover costs using up to 40% of the available crude oil (produced oil less royalty oil) and 50% of the produced gas. In April 2010 the Company completed the acquisition of 291.4 line kilometers of two dimensional (2D) seismic data in the Pulkhana Block.

Pulkhana-9 was spudded by the Company on April 3, 2011 and a total depth of 2,333 meters was reached on July 23, 2011. Oil indications have been seen in all of the targeted Pulkhana reservoirs. A comprehensive well testing program confirmed oil in the known predrill reservoirs (Euphrates & Shiranish) as well as tested oil from the Jaddala reservoir. In addition, two further intervals were determined to be hydrocarbon and remain prospective pending further testing (Dhiban & Balambo).

The Company has received KRG approval to contract the existing Sakson 101 rig for an additional two firm and two option wells. The rig will be moved directly to Pulkhana-10 once operations on Pulkhana-9 have been completed. The Romfor 22 rig has been contracted for the Pulkhana-8 re-entry which is currently underway. Pulkhana-11 is in the planning stage.

In addition the Company is progressing with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed in 2012.

In August 2012 the Company will then have the option to continue on to a further two year exploration phase and if development is warranted a development period of up to 20 years with an automatic right to a five year extension.

Refer also to the discussion under "Commitments" in this MD&A.

Arbat Block

The Arbat Block (formerly Block G) is a 973 square kilometer exploration area located in eastern Kurdistan. The Block contains both surface anticlines and subsurface structures all identified by recent field work and 2D seismic. The Block also has a number of oil seeps several of which were discovered during the 2010 seismic operations.

The Company is the operator of the project and holds a 60% undivided interest in the PSC, 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.

Fiscal terms under the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG and a capacity building payment equal to 20% of the Company's profit oil share (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover costs using up to 45% of the available crude oil (produced oil less royalty oil) and 53% of the produced gas.

In October 2010 the Company completed the acquisition of 429.1 kilometer of 2D seismic data on the Arbat Block. Construction for the Arbat-A well location has been approved by the KRG and will commence shortly. The well is situated approximately 3km north of Arbat town and is expected to start drilling in 2012. The proposed infill 2D seismic program received MNR approval and mobilization commenced in October with due completion of acquisition by year end. The survey has been designed to better define several significant leads in the block as potential drilling prospects for the Company's second obligation well.

Refer also to discussion under "Commitments" in this MD&A.

Taza Block (formerly Block K42)

Taza Block is a 511 square kilometer exploration area located in the South of Kurdistan immediately northeast of the Pulkhana Block, and is on trend with the giant producing Jambur field situated to the north west of the Block. The producing Jambur field has estimated oil reserves in excess of one billion barrels and is connected to export infrastructure.

The Company's 100% owned subsidiary ShaMaran Petroleum BV entered into a production sharing contract ("PSC") on July 27, 2011 in respect of the Taza Block. ShaMaran holds a 20% working interest in the PSC, and Oil Search Iraq Limited ("OSIL") is the operator with a 60% working interest in the PSC. The Kurdistan Regional Government of Iraq ("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 to convert that agreement into the PSC.

Fiscal terms of the PSC include a 10% royalty, a variable profit split, based on a percentage share to the KRG, a capacity building value equal to 20% of the Company's share of profit petroleum (produced oil, less royalty and cost oil) to be paid to the KRG. The Company has the right to recover petroleum costs using up to 40% of the available crude oil (produced oil less royalty oil) and 50% of the produced gas.

The acquisition of 232 line-kilometres of 2D seismic data was concluded in May 2010 and identified a significant 90 square kilometre four-way dip closed structure, with structural relief of between 100 & 300m. This closure lies on the structural trend between the Jambur field and the Western Zagros Sarqala oil discovery to the south (with reported test rates of over 9,000 barrels of oil per day from the Jeribe formation). The Jeribe will be one of the main targets for the upcoming exploration well on the identified prospect which is in the planning phase and is expected to be drilled in 2012.

Refer also to discussion under "Commitments" in this MD&A.

Selected Quarterly Information

The following is a summary of selected quarterly financial information for the Company:

($000s, except per share data)	For the Quarter Ended							
	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010	Jun 30 2010	Mar 31 2010	Dec 31 2009*
Continuing operations								
General and administrative	202	(837)	(164)	628	(643)	(360)	(219)	(556)
Share-based payments	(70)	(114)	(59)	(83)	(73)	(161)	(254)	(144)
Depreciation	(58)	(56)	(52)	(43)	(41)	(29)	(26)	(6)
Share of loss of affiliate	(173)	(30)	(79)	46	(73)	-	-	-
Finance cost	(2,780)	(229)	(227)	9	(457)	(2,212)	(458)	(636)
Finance income	147	367	1,162	1,961	600	74	1,760	108
Income tax expense	(32)	(33)	(41)	(38)	(16)	(14)	(13)	(12)
Net inc. / (loss) from continuing ops.	(2,764)	(932)	540	2,480	(703)	(2,702)	790	(1,246)
Discontinued operations								
Expenses	(46)	(43)	(78)	(73)	(47)	(728)	(188)	1,552
Gain / (loss) on sale of assets	-	-	-	-	-	-	77	(4)
Net inc. / (loss) from discontinued ops.	(46)	(43)	(78)	(73)	(47)	(728)	(111)	1,448
Net income / (loss)	(2,810)	(975)	462	2,407	(750)	(3,430)	679	202
Basic income / (loss), $ per share:								
Continuing operations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Diluted income / (loss), $ per share:								
Continuing operations	-	-	-	-	-	-	-	-
Discontinued operations	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

**The amounts for 2009 are presented in accordance with Canadian GAAP and have not been restated to conform to IFRS.*

Results of Continuing Operations

The continuing operations of the Company are currently in the exploration stages and generate no revenue. The expenses and income items of continuing operations are explained in detail as follows:

General and Administrative Expenses

In $000	**Three months ended September 30,**		**Nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
Salaries and benefits	785	650	2,698	1,679
Management and consulting fees	309	199	1,001	534
Sponsorship expense	-	485	527	485
General and other office expenses	353	31	844	304
Listing costs and investor relations	84	44	520	264
Travel expenses	81	70	303	212
Legal, accounting and audit fees	17	6	270	185
Reclassification of legal fees to discontinued operations	-	-	-	(61)
General and administrative expense incurred	1,629	1,485	6,163	3,602
Expenses and PSC overhead capitalized as E&E assets	(1,831)	(842)	(5,364)	(2,380)
Net general and administrative expense / (recovery)	(202)	643	799	1,222

The increase over the comparative periods of the prior year G&A expenses incurred is due to the increase in technical and support associated with the additional exploration activity on the Company's petroleum properties relative to the same periods last year. The reduction in net G&A expense compared to the amounts in the comparative periods of 2010 is due to an increase in the respective PSC overhead amounts capitalized as exploration and evaluation ("E&E") assets as a result of the additional exploration activity in the current year.

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.

Share-Based Payments

$000	**Three months ended September 30,**		**Nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
Share-based payments	70	73	243	488

The share-based payments expense results from the vesting of stock options granted in the years from 2009 to 2011. A total of 1,390,000 stock options were granted during the year ended December 31, 2010 (2009: 2,085,000). There were 25,000 options granted in the three and nine months ended September 30, 2011. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

Depreciation and Amortization

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Depreciation and amortization	58	41	166	96

Depreciation and amortization corresponds to cost of use of the furniture and IT equipment at the Company's technical and administrative offices located in Switzerland and Kurdistan.

Share of loss from affiliate

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Loss from investment in GEP	173	73	282	73

The loss relates to the Company's pro-rata portion of the net loss incurred by GEP in conducting exploration operations on the Atrush Block in Kurdistan during the reporting periods of 2011. The Company acquired its 33.5% interest in GEP on August 27, 2010.

Finance cost

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Guarantee fees	207	457	663	1,363
Unwinding discount on decommissioning provision	1	-	1	-
Foreign exchange loss	2,572	-	1,320	-
Total finance cost	2,780	457	1,984	1,363

The Company has incurred fees in respect of a guarantee of the minimum financial obligations under the Pulkhana and Arbat PSCs. The guarantee which was provided to the KRG by a related company on behalf of ShaMaran became effective on August 29, 2009 and was charged at a rate of 3.0 % per annum up to June 30, 2010 and at 1.5% thereafter. Refer also to the discussions under "Commitments" and "Related Party Transactions" in this MD&A.

The foreign exchange loss in the 2010 reporting periods result primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar weakened during the reporting periods against the United States dollar which is the reporting currency of the Company.

Finance income

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Interest income	147	99	424	239
Foreign exchange gain	-	501	-	431
Total finance income	147	600	424	670

The foreign exchange gain in the 2010 reporting periods result primarily from holding cash and cash equivalents denominated in Canadian dollars while the Canadian dollar strengthened during the reporting periods against the United States dollar which is the reporting currency of the Company.

Interest income represents bank interest earned on cash and investments in marketable securities. The increase in the amounts reported in 2011 relative to the amounts reported in the comparable periods of 2010 is primarily due to higher interest rates received on the cash balances as well as higher average cash balances held throughout the reporting periods.

Income tax expense

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Income tax expense	32	16	106	43

Income tax expense relates to provisions for income tax on service income generated in Switzerland during the reporting periods. The amount reported in the 2011 reporting periods have increased relative to the amounts in the comparable periods of 2010 due to a higher tax base relating to the cost of additional services incurred to support the higher levels of exploration activity in 2011.

Results of Discontinued Operations

The main components of discontinued operations are explained as follows:

Expenses

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Legal, accounting and audit fees	34	17	92	128
Management and consulting fees	9	26	27	290
General and other office expenses	3	4	48	68
Asset retirement obligation	-	-	-	339
Provision for insurance recoverable	-	-	-	77
Reclassification of legal fees from continuing operations	-	-	-	61
Total expenses	46	48	167	963

The decrease in total expenses of the 2011 reporting periods relative to the comparable reporting periods of 2010 is due to the reduction in activity associated with the Company's United States based operations following the sale in 2009 of substantially all of the properties located there. The legal, management and consulting fees which the Company continues to incur are related to the decommissioning and windup of its remaining properties and legal entities in the United States.

Gain on disposal of assets

In $000	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Gain on asset disposal	-	-	-	77

The Company had a gain of $77 in the first nine months of 2010 relating to the disposal of all remaining inventories located in the United States.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outstanding Share Data

As of September 30, 2011 the Company had 680,483,860 shares outstanding and 3,233,334 stock options outstanding under its stock-based compensation plan. No warrants were outstanding.

The Company concluded a private placement on November 15 and issued 127.5 million common shares at $CAD 0.40 per share for gross cash proceeds of $CAD 51.0 million. A 4% finders' fee is payable in cash on a portion of the private placement.

During the month of April 2011 a quantity of 1,210,000 options were exercised at $CAD 0.48 resulting in proceeds of $CAD 581. On May 5, 2011 a private placement of an additional 56 million common shares at $CAD 0.90 per share resulted in total cash proceeds of $CAD 50.4 million ($CAD 49.5 million net of issuance costs).

Related Party Transactions

	Purchases of services three months ended September 30		**Purchases of services nine months ended September 30**		**Amounts owing (due from) as at:**	
					September 30	**December 31**
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Namdo Management Services Ltd.	119	23	295	110	(13)	1
Mile High Holdings Ltd.	-	(76)	31	139	-	-
McCullough O'Connor Irwin LLP	8	19	52	60	7	12
Vostok Naphta Investment Ltd.	10	-	14	-	-	-
Lundin Petroleum AB	342	757	1,677	2,351	330	454
Total	**479**	**723**	**2,069**	**2,660**	**324**	**467**

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

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

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

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

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and nine months ended September 30, 2011 of $342 (2010: $757) and $1,677 (2010: $2,351) were comprised of G&G and other technical service costs of $38 (2010: $45) and $106 (2010: $169), reimbursement for Company travel and related expenses of $nil (2010: $164) and $610 (2010: $497), office rental, administrative and building services of $98 (2010: $92) and $298 (2010: $322), and $206 (2010: $456) and $663 (2010: $1,363) 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).

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.

Liquidity and Capital Resources

Working capital at September 30, 2011 totaled $11,636 compared to $46,926 at September 30, 2010.

The cash position of the Company decreased over the third quarter of 2011 by $43,350 compared to a decrease in cash of $17,258 during the third quarter of 2010. The cash position of the Company decreased by $30,067 over the first nine months of 2011 compared to an increase in cash of $6,449 during the same period in 2010. The primary components of the movement in funds are discussed in the following paragraphs.

The operating activities of the Company during the third quarter of 2011 resulted in an increase in the cash position by $7,716 compared to an increase by $2,378 in the comparable period of 2010. During the first 9 months of 2011 the operating activities of the Company resulted in an increase in the cash position by $11,852 compared to a decrease by $9 in the comparable period of 2010. Increased trade payable balances are the primary reason for the increase in 2011 cash position due to operating activities.

Net cash used in investment activities during the third quarter of 2011 was $48,429 compared to funds used in third quarter of 2010 in the amount of $33,350. The main components of cash used were the payment to the KRG of $20 million as a capacity building bonus in respect of the Taza Block PSC, spending on E&E costs of $16.2 million related to the Company's petroleum properties in Kurdistan, and an additional $2.3 million investment in GEP to fund joint operations on the Atrush Block. The Company used $92,524 in investing activities over the first nine months of 2011 compared to $41,676 during the same period in 2010. The main components of cash used were the payment to the KRG of $20 million as a capacity building bonus in respect of the Taza Block PSC, spending on E&E costs of $54.5 million related to the Company's petroleum properties in Kurdistan, and an additional $17.8 million investment in GEP to fund joint operations on the Atrush Block.

The Company received financing funds net of issuance costs in the first nine months of 2011 amounting to $51.3 million ($CAD 49.5 million) in respect of the May 2011 private placement of 56 million common shares at $ CAD 0.90 per share and an additional $606 in cash was received from the exercise of share options. The exercise of share options over in the first quarter of 2011 contributed $56 in funds in addition to the financing funds generated in the second quarter of 2011. The Company had no significant financing activities during the three months ended September 30, 2011.

The Company does not currently generate cash flow from its oil exploration and development operations. The Company has relied upon the issuance of common shares to finance its ongoing oil exploration, development and acquisition activities. The Company has sufficient financial resources to fund its contractual commitments under the current agreed work plan. Continuing operations are dependent on discovery of economic oil and gas reserves and ultimately on the attainment of profitable operations.

The share premium account increased by $70 in the third quarter of 2011 (first 9 months of 2011: decrease of $161) compared to an increase of $70 in the comparable period of 2010 (first 9 months of 2010: increase of $388) due to share-based payments expense and stock options exercised during the periods. When options are granted the Black-Scholes option value method is used to calculate a value for the stock options. When the options are exercised the applicable amounts of share premium are transferred to share capital. There were no options exercised during the third quarter of 2011 (first 9 months of 2011: 1,301,666).

Commitments

Production Sharing Contracts

The Company had a combined $61.0 million minimum financial commitment in respect of the first exploration sub-period relating to the PSCs governing its petroleum operations in two separate petroleum exploration and development properties, the Pulkhana Block 10 ("Pulkhana Block") and the Arbat Block, located in the Kurdistan Region of Iraq. The PSCs also require the Company to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at September 30, 2011 the Company had executed $21.0 million of its minimum financial obligations through the completion of its 2D seismic acquisition program in both Blocks and the drilling of the Pulkhana 9 exploration and appraisal well.

Taza Block (Formerly Block K42)

As a party to the K42 Option Agreement the Company was required to contribute to the cost of conducting certain seismic services, including the acquisition of 2D seismic data. At September 30, 2011 the Company had concluded its remaining minimum commitments under the K42 Option Agreement.

At the date of the MD&A the Company had exercised its option to enter into a PSC and had entered into a PSC for this Block. Under the terms of the Taza Block PSC the Company is required to fund its pro-rata interest in the remaining minimum financial commitments which amount to $2.5 million. In addition the Company is required to pay capacity building bonus of $20 million during the second half of 2011, $5 million in respect of local community development projects over the next 3 years and to fund certain personnel, training, environmental, and technological assistance projects, during the period over which the contracts are in effect. As at September 30, 2011 the Company had executed payment of the $20.0 million capacity building bonus.

Investment in GEP

As part of the acquisition of GEP the Company agreed to contribute the next $15.8 million in cash required to fund GEP's oil exploration and development operations. As at September 30, 2011 the Company had completed payment of this obligation.

Financial Instruments

The Company's financial instruments consist of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner.

Cash, cash equivalents and short-term investments are designated as held for trading and are therefore carried at fair value, with unrealized gains or losses recorded in interest income.

The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and net payable to joint venture partner approximate carrying values because of the short-term nature of these instruments. The fair values of short-term investments are determined directly by reference to quoted market prices.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages its credit risk through monitoring counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its cash and cash equivalents and accounts receivable. To manage this risk the Company maintains its excess cash 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.

Accounts receivable are primarily from 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.

Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risk harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company requires authorizations for expenditure on both operating and non-operating projects to further manage capital expenditures.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

The significant market risk exposures to which the Company is exposed are foreign currency, commodity price and interest rate risks.

Foreign currency risk – The Company maintains a substantial portion of its cash in Canadian dollars; however, the Company's operations are conducted predominantly in United States dollars. The Company's operating results and

cash flows are affected to varying degrees by the changes in the Canadian dollar relative to the United States dollar. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Commodity price risk – The prices that the Company may receive for its crude oil and natural gas production may have a significant impact on its revenue and cash inflows from operating activities. Any significant price decline in commodity prices would adversely affect the amount of funds available for capital reinvestment purposes. At this time the Company does not use derivative financial instruments to manage its exposure to this risk.

Interest rate risk – The Company's bank accounts earn interest income at variable rates. The Company's future interest income is exposed to changes in short-term rates.

Uncertainty of title

Although the Company conducts title reviews prior to acquiring an interest in a property, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question the Company's interest in the production sharing contracts. Any uncertainty with respect to one or more of the Company's production sharing contracts could have a material adverse effect on the Company's business, prospects and results of operations.

Risks and Uncertainties

The majority of ShaMaran's assets are located in Kurdistan. ShaMaran operates in areas which are under foreign governmental sovereignty and is therefore subject to political, economic, and other uncertainties associated with foreign operations, which include (but are not limited to) the exposure of the Company to changes in general government policies and legislation, change in the energy policies or in their administration, changes in fiscal terms of a production sharing contract with the government, inability to export the petroleum produced under contract, adverse determinations or rulings by governmental authorities, nationalization, currency fluctuations and devaluations, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

Political Issues

The political and security situation in Iraq is not settled and is volatile. There are outstanding political issues and differences between the various political factions in Iraq. These differences could adversely impact ShaMaran's interests in Kurdistan. In addition, certain borders of Kurdistan remain the subject of final determination, the result of which may have an adverse effect on ShaMaran's assets.

Legislative Issues

All contracts in Kurdistan are issued under the Oil and Gas Law of The Kurdistan Region - Iraq. No federal Iraqi legislation has been enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament). The lack of legislation, or the enactment of federal legislation contradictory to Kurdistan Region legislation, could have a material adverse impact on ShaMaran's interests in the region.

Marketing, Markets and Transportation

The export of oil and gas from Kurdistan remains subject to uncertainties which could have an adverse impact on ShaMaran's ability to export and market such oil and gas. Further, ShaMaran's ability to market its oil and gas may also depend upon its ability to secure transportation and delivery, in view of related issues such as the proximity of its potential production to pipelines and processing facilities. Potential government regulation relating to price, quotas and other aspects of the oil and gas business could also have an adverse impact.

Exploration, Development and Production Risks

Oil and gas operations involve geological, technical and commercial risks. ShaMaran's success will depend on its ability to find, appraise, develop and commercially produce oil and gas resources and reserves. Future oil and gas exploration may involve risks relating to dry holes, wells which do not produce sufficient petroleum to return a profit after drilling, operating and other costs. In addition, operations can be effected by drilling hazards, environmental damage, and other field operating conditions which could adversely affect production and increase the cost of operations. Diligent operations can contribute to maximizing production rates over time but production delays and declines from normal field operating conditions cannot be eliminated and can adversely affect revenue and cash flow levels.

Project Risks

ShaMaran's ability to execute projects and market oil and gas will depend upon numerous factors beyond ShaMaran's complete control. Factors such as obtaining approvals from relevant authorities, issues relating to security in the area of operation, adverse legislation in Kurdistan and/or Iraq, the regulation of the oil and gas industry by various levels of government and governmental agencies in Kurdistan and/or Iraq could adversely impact the execution of ShaMaran's projects.

Substantial Capital Requirements

ShaMaran anticipates making substantial capital expenditures in the future for the acquisition, exploration, development and production of oil and gas reserves. ShaMaran's results will impact its access to the capital necessary to undertake or complete future drilling and development programs. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to ShaMaran. The inability of ShaMaran to access sufficient capital for its operations could have a material adverse effect on ShaMaran's financial condition, results of operations and prospects.

Additional Funding Requirements

ShaMaran's cash balances may not be sufficient to fund its ongoing activities at all times. From time to time, ShaMaran may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause ShaMaran to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. ShaMaran's ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

ShaMaran may make future acquisitions or enter into financings or other transactions involving the issuance of securities of ShaMaran which may be dilutive to the existing shareholders.

Accounting Policies and Critical Accounting Estimates

Use of Estimates

The consolidated financial statements of the Company have been prepared by management using international financial reporting standards ("IFRS"). In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the period. Specifically, estimates were utilized in calculating depletion, asset retirement obligations, stock-based compensation, amortization and impairment write-downs. Actual results could differ from these estimates and differences could be material.

Accounting for Oil and Gas Operations

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method acquisition costs of oil and gas properties, costs to drill and equip exploratory wells that find proved reserves and costs of drilling and equipping development wells are capitalized and subject to annual impairment testing.

Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to exploration expense. Exploration well costs that have found sufficient reserves to justify commercial production, but whose reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and or related project.

Capitalized costs of proved oil and gas properties are depleted using the unit of production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. Successful exploratory wells and development costs and acquired resource properties are depleted over proved developed reserves. Acquisition costs of unproved reserves are not depleted or amortized while under active evaluation for commercial reserves.

Costs associated with significant development projects are depleted once commercial production commences.

A revision to the estimate of proved reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

Producing properties and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. The impairment test is initially based on undiscounted future cash flows from proved and risk adjusted probable reserves. If an impairment is identified, fair value is calculated as the present value of estimated expected discounted cash flows from proved and risk-adjusted probable reserves. Any impairment loss is the difference between the carrying value of the petroleum property and its fair value. Therefore, if it is determined that the estimated fair value is less than the net carrying amount, a write-down to the oil and gas property's fair value is recognized during the period, with a charge to earnings.

Estimates of future cash flows used in the evaluation of impairment of assets are performed based on risk assessments on field and reservoir performance and include assumptions regarding commodity prices, discount rates and future costs.

A substantial portion of the Company's exploration and development activities are conducted jointly with others.

The estimation of reserves and resources is subjective. Forecasts are based on engineering data, future prices, expected future rates of production and the timing of capital expenditures, all of which are subject to uncertainties and interpretations.

There were no changes in the third quarter of 2011 to the resources reported by the Company at March 31, 2011.

International Financial Reporting Standards

International Financial Reporting Standards ("IFRS") replaced Canadian GAAP for publicly accountable enterprises for with fiscal years commencing January 1, 2011. The Company has adopted IFRS for the interim and annual periods beginning on January 1, 2011 and has reported comparative information for the year 2010.

The overall impact of the adjustments to the balance sheet, statement of comprehensive income and statement of cash flows conversion from Canadian GAAP to IFRS is considered to be insignificant.

The following notes explain the adjustments made in converting from Canadian GAAP to 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 & 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, $141.8 million at September 30, 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 amortization 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 premium account and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $2 and $100 for the three and nine months ended September 30, 2010 and $56 for the year ended December 31, 2010.

iii. For the period ended January 1, 2010 the assets and liabilities associated with the Company's discontinued operations were not presented separately on the Canadian GAAP consolidated balance sheet. Under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* the assets and liabilities associated with discontinued operations are presented separately from other assets and liabilities on the consolidated balance sheet and separate disclosure of the major classes of assets and liabilities should be included within the notes to the consolidated financial statements. Therefore current assets held by continuing operations have been decreased by $0.8 million at January 1, 2010, current liabilities held by continuing operations have been decreased by $2.8 million at January 1, 2010 and non-current liabilities held by continuing operations have been decreased by $0.4 million at January 1, 2010 in converting from Canadian GAAP to IFRS.

Information relating to the Company's accounting policies and transition to IFRS is included in notes 2, 3 and 5 of the Condensed Consolidated Interim Financial Statements.

Outlook

The outlook for the remainder of the year 2011 for the four blocks which the Company holds interests in Kurdistan is as follows:

Atrush Block

3D seismic is currently in progress and operations are expected to continue until the winter weather window closes operations in the high mountains for 2011. The Atrush-2 well location is under construction and operator, GEP, is tendering for a rig that can commence drilling operations in Q2 2012.

Pulkhana Block

The geological sidetrack and openhole testing of the Shiranish & Balambo formations in Pulkhana 9 should be completed in December, and the rig moved to Pulkhana-10. The workover operations on Pulkhana-8 should be completed. Planning for Pulkhana-11 will commence.
The Company will progress with the feasibility study and design for the Pulkhana Early Production Facility ("EPF") planned to be installed in 2012 using information gathered from current operations.

Arbat Block

Construction of the Arbat-1 well location will commence and the design for the well finalized. The ongoing infill 2D seismic should be completed by year end with data processing initiated.

Taza Block (Formerly Block K42)

Well planning for the Taza exploration well will continue following approval of the surface location. Civil engineering works for access road and the well location are under preparation.

New Ventures

As part of its normal business the Company is pursuing new opportunities in the region.

Budget

The capital and operating budget approved by the Board of Directors for the year 2011 was for $122.9 million. The budget contains amounts relating to the work programs of the four Kurdistan petroleum properties as follows: $49.5 million for the Pulkhana Block, $16.5 million for the Atrush Block, $30.7 million for the Arbat Block, $21.6 million for Block K42, and $4.6 million in corporate costs. The Company currently has sufficient funds to meet its existing contractual commitments under the approved budget and plans to seek additional funding to finance the future commitments.

General

The security situation in Kurdistan remains stable with no major reported incidents. The region is seeing a rapid development in infrastructure and a significant increase in the availability of oil and gas services in the country. Based on current reports oil exports from Kurdistan are now around 175,000 bopd. The KRG announced in May 2011 that KRG contractors would receive first payment for oil exports of around 50 percent (US$243 million) of net revenues derived from the export of over 5 million barrels of oil from the Kurdistan Region between the start of February 2011 and March 27 and on June 6 and September 21 one of the KRG contractors, DNO International ASA, confirmed that it had received payment for exports in the amounts of $103.7 million and 60.0 million, respectively. This is an extremely positive development for the region.

SHAMARAN PETROLEUM CORP.

Condensed Consolidated Interim Statement of Comprehensive Income

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

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Expenses from continuing operations					
General and administrative (expense) / recovery	7	202	(643)	(799)	(1,222)
Share based payments	18	(70)	(73)	(243)	(488)
Depreciation expense		(58)	(41)	(166)	(96)
Share of loss of associate	14	(173)	(73)	(282)	(73)
Operating loss		**(99)**	**(830)**	**(1,490)**	**(1,879)**
Finance costs	8	(2,780)	(457)	(1,984)	(1,363)
Finance income	9	147	600	424	670
Net finance (costs) / income		**(2,633)**	**143**	**(1,560)**	**(693)**
Loss before income tax expense		**(2,732)**	**(687)**	**(3,050)**	**(2,572)**
Income tax expense	10	(32)	(16)	(106)	(43)
Net loss from continuing operations		**(2,764)**	**(703)**	**(3,156)**	**(2,615)**
Discontinued operations					
Loss from discontinued operations	11	(46)	(47)	(167)	(886)
Net loss for the period		**(2,810)**	**(750)**	**(3,323)**	**(3,501)**
Other comprehensive income:					
Currency translation differences		(61)	111	8	85
Total other comprehensive income / (loss)		**(61)**	**111**	**8**	**85**
Total comprehensive loss for the period		**(2,871)**	**(639)**	**(3,315)**	**(3,416)**
Earnings per share:					
Continuing operations					
Basic and diluted		-	-	-	-
Discontinued operations					
Basic and diluted		-	-	-	-
Continuing and discontinued operations					
Basic and diluted		-	-	-	-

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

SHAMARAN PETROLEUM CORP.

Condensed Consolidated Interim Balance Sheet (unaudited)

(Expressed in thousands of United States Dollars)

	Note	September 30, 2011	December 31, 2010	January 1, 2010
Assets				
Non-current assets				
Exploration, evaluation and other intangible assets	12	226,855	149,892	185,035
Property, plant & equipment	13	775	330	145
Investment in associate	14	49,145	44,282	-
		276,775	**194,504**	**185,180**
Current assets				
Other current assets		562	447	376
Inventories		3,426	2,656	-
Other receivables		146	124	31
Cash and cash equivalents		28,617	58,684	63,565
		32,751	**61,911**	**63,972**
Assets associated with discontinued operations	11	**89**	**74**	**847**
Total assets		**309,615**	**256,489**	**249,999**
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	15	21,019	5,156	2,087
Current tax liabilities		96	103	12
Deferred consideration	14	-	12,643	-
		21,115	**17,902**	**2,099**
Non-current liabilities				
Provisions	16	1,344	-	-
Other long-term liabilities		-	-	170
		1,344	**-**	**170**
Liabilities associated with discontinued operations	11	**2,793**	**3,069**	**3,167**
Total liabilities		**25,252**	**20,971**	**5,436**
Equity				
Share capital	17	484,827	432,506	379,673
Equity share rights	17	-	-	61,349
Share premium account		3,807	3,968	3,405
Cumulative translation adjustment		13	5	4
Accumulated deficit		(204,284)	(200,961)	(199,868)
Total equity		**284,363**	**235,518**	**244,563**
Net liabilities and equity		**309,615**	**256,489**	**249,999**

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

The financial statements were approved by the Board of Directors and authorized for issue on November 18, 2011 and signed on its behalf:

Cameron Bailey, Director

Keith Hill, Director

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

	Share capital	Equity share rights	Share premium account	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 period	-	-	-	85	(3,501)	**(3,416)**
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	(677)	-	-	-	-	**(677)**
Share-based payments	-	-	488	-	-	**488**
	52,815	-	488	-	-	**53,303**
Release of rights to equity shares	-	(61,349)	-	-	-	**(61,349)**
Balance at September 30, 2010	**432,488**	**-**	**3,893**	**89**	**(203,369)**	**233,101**
Balance at January 1, 2011	**432,506**	**-**	**3,968**	**5**	**(200,961)**	**235,518**
Total comprehensive loss for the period	-	-	-	8	(3,323)	**(3,315)**
Transactions with owners in their capacity as as owners:						
Private placement	52,204	-	-	-	-	**52,204**
Transaction costs	(948)	-	-	-	-	**(948)**
Share-based payments	-	-	243	-	-	**243**
Share options exercised	1,065	-	(404)	-	-	**661**
	52,321	-	(161)	-	-	**52,160**
Balance at September 30, 2011	**484,827**	**-**	**3,807**	**13**	**(204,284)**	**284,363**

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

SHAMARAN PETROLEUM CORP.

Condensed Consolidated Interim Statement of Cash Flows (unaudited)

(Expressed in thousands of United States Dollars)

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Operating activities					
Net loss for the period from continuing operations		(2,764)	(703)	(3,156)	(2,615)
Adjustments for:					
Interest income		(147)	(99)	(424)	(239)
Foreign exchange (gain) / loss	8	2,572	(501)	1,320	(431)
Depreciation expense		58	41	166	96
Income tax		(98)	19	(7)	46
Share-based payment expense	18	70	73	243	488
Share of loss of associates	14	173	73	282	73
Capitalized expenses		(473)	-	(1,070)	-
Changes in trade and other receivables		14	47	(22)	(74)
Changes in other current assets		489	(534)	(115)	(337)
Changes in inventories		(210)	-	(770)	-
Changes in accounts payable and accrued expenses		8,136	3,413	15,863	3,366
Cash used in discontinued operations		(104)	549	(458)	(382)
Net cash inflows / (outflows) from operating activities		**7,716**	**2,378**	**11,852**	**(9)**
Investment activities					
Exploration, evaluation and other intangible assets		(46,222)	(8,952)	(74,549)	(17,567)
Property, plant & equipment		(9)	(155)	(611)	(283)
Investment in associate	14	(2,345)	(24,342)	(17,788)	(24,342)
Interest received on cash deposits		147	99	424	239
Cash provided by discontinued operations		-	-	-	277
Net cash outflows to investing activities		**(48,429)**	**(33,350)**	**(92,524)**	**(41,676)**
Financing activities					
Net proceeds / (costs) on issuance of shares		(4)	47,815	51,917	47,815
Net cash inflows / (outflows) from financing activities		**(4)**	**47,815**	**51,917**	**47,815**
Effect of exchange rate changes on cash and cash equivalents		(2,633)	415	(1,312)	319
Change in cash and cash equivalents		**(43,350)**	**17,258**	**(30,067)**	**6,449**
Cash and cash equivalents, beginning of the period		71,967	52,756	58,684	63,565
Cash and cash equivalents, end of the period		**28,617**	**70,014**	**28,617**	**70,014**

The accompanying notes are an integral part of these condensed consolidated interim 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 & 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 condensed consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including *International Accounting Standard 34, Interim Financial Reporting* and *IFRS 1, First-time Adoption of IFRS,* as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

The condensed consolidated interim financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities including derivative instruments that are recognized at fair value through profit or loss. The preparation of interim 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 are based on IFRS issued and outstanding at the date these financial statements were approved for issuance by the Board of Directors. Any subsequent changes to IFRS that effect the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim condensed financial statements including transition adjustments recognized on the transition to IFRS.

These condensed consolidated interim 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 condensed consolidated interim 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 $28.6 million of cash and cash equivalents as at September 30, 2011 to satisfy its obligations and finance its exploration & evaluation program in Kurdistan. Failure to meet these exploration & 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 possibilities which will be pursued as required the resources available will be sufficient for the Company and its subsidiaries to satisfy its contractual obligations and commitments under the agreed work program over the next 12 months and to continue as a going concern for the foreseeable future. Nevertheless the possibility remains that the Company's operations and the availability of additional finance could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks. Refer also to note 22.

3. Significant accounting policies

The preparation of these condensed consolidated interim financial statements prepared in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent 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 condensed consolidated interim 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 a group 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 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 & evaluation costs and other intangible assets

Exploration & evaluation assets

The Company applies the full cost method of accounting for exploration & 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 & 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 & 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 & 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 & gas assets within PP&E. E&E assets that are not capable of commercial development remain capitalized at cost less accumulated amortization 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 & equipment ("PP&E")

Oil & gas assets

Oil & 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 & gas assets:

Oil & 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 & equipment

Property, plant & equipment assets excluding oil & 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 amortization 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 year

(i) Impairment of non-financial assets:

E&E assets and oil & 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 & 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 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 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 categories. 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 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 amortization.

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 amortization 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 recognised as an expense when they are due.

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 condensed consolidated interim 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 condensed consolidated interim financial statements:

(a) Oil & gas reserves

The business of the Company is the exploration, oil & gas of oil & gas reserves in Kurdistan. Estimates of commercial oil & gas reserves are used in the calculations for impairment, depreciation and amortization and decommissioning provisions. Changes in estimates of oil & 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 amortization and decommissioning provisions within these condensed consolidated interim 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, 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 & 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 notes 11, 12 and 16.

(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 September 30, 2011 is shown in note 18.

5. Transition to IFRS

As stated in note 2, these condensed consolidated interim financial statements are for part of the period covered by the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies indicated in note 3 have been applied in preparing these condensed consolidated interim financial statements for the three and nine months ended September 30, 2011, the comparative information for the three and nine months ended September 30, 2010, the financial information for the 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 condensed consolidated interim financial statements the Company has adjusted amounts previously reported in accordance with Canadian GAAP within the comparative financial information for the three and nine months ended September 30, 2011 and 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:

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

		At December 31, 2010			At September 30, 2010			At January 1, 2010		
	Note 5(c)	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS
Assets										
Non-current assets										
Exploration, evaluation and other intangible assets	i.	-	149,892	149,892	-	141,829	141,829	-	185,035	185,035
Property, plant & equipment	i.	150,222	(149,892)	330	142,160	(141,829)	331	185,180	(185,035)	145
Investments in associate		44,282	-	44,282	45,112	-	45,112	-	-	-
		194,504	**-**	**194,504**	**187,272**	**-**	**187,272**	**185,180**	**-**	**185,180**
Current assets										
Other current assets	iii.	447	-	447	589	-	589	609	(233)	376
Inventories		2,656	-	2,656	124	-	124	-	-	-
Short-term investments	iii.	-	-	-	-	-	-	79	(79)	-
Trade and other receivables	iii.	124	-	124	105	-	105	566	(535)	31
Cash and cash equivalents		58,684	-	58,684	70,014	-	70,014	63,565	-	63,565
		61,911	**-**	**61,911**	**70,832**	**-**	**70,832**	**64,819**	**(847)**	**63,972**
Assets associated with discontinued operations	iii.	**74**	**-**	**74**	**160**	**-**	**160**	**-**	**847**	**847**
Total assets		**256,489**	**-**	**256,489**	**258,264**	**-**	**258,264**	**249,999**	**-**	**249,999**
Liabilities										
Current liabilities										
Trade and other payables	iii.	5,156	-	5,156	5,454	-	5,454	3,903	(1,816)	2,087
Current tax liabilities		103	-	103	58	-	58	12	-	12
Deferred consideration		12,643	-	12,643	15,843	-	15,843	-	-	-
Provisions	iii.	-	-	-	-	-	-	1,001	(1,001)	-
		17,902	**-**	**17,902**	**21,355**	**-**	**21,355**	**4,916**	**(2,817)**	**2,099**
Non-current liabilities										
Other long-term liabilities		-	-	-	-	-	-	170	-	170
Provisions	iii.	-	-	-	746	-	746	350	(350)	-
		-	**-**	**-**	**746**	**-**	**746**	**520**	**(350)**	**170**
Liabilities associated with discontinued operations	iii.	**3,069**	**-**	**3,069**	**3,062**	**-**	**3,062**	**-**	**3,167**	**3,167**
Total liabilities		**20,971**	**-**	**20,971**	**25,163**	**-**	**25,163**	**5,436**	**-**	**5,436**
Equity										
Share capital		432,506	-	432,506	432,488	-	432,488	379,673	-	379,673
Equity share rights		-	-	-	-	-	-	61,349	-	61,349
Share premium account	ii	3,867	101	3,968	3,748	144	3,892	3,360	45	3,405
Cumulative translation adj.		5	-	5	89	-	89	4	-	4
Accumulated deficit	ii	(200,860)	(101)	(200,961)	(203,224)	(144)	(203,368)	(199,823)	(45)	(199,868)
Total equity		**235,518**	**-**	**235,518**	**233,101**	**-**	**233,101**	**244,563**	**-**	**244,563**
Total liabilities and equity		**256,489**	**-**	**256,489**	**258,264**	**-**	**258,264**	**249,999**	**-**	**249,999**

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

		Year ended December 31, 2010			Nine months ended September 30, 2010			Three months ended September 30, 2010		
	Note 5(c)	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS	CGAAP	Adj.	IFRS
Continuing operations										
General and administrative		(594)	-	(594)	(1,222)	-	(1,222)	(643)	-	(643)
Share based payments	ii	(514)	(56)	(570)	(388)	(100)	(488)	(70)	(2)	(72)
Depreciation expense		(139)	-	(139)	(96)	-	(96)	(41)	-	(41)
Share of loss of associate		(27)	-	(27)	(73)	-	(73)	(73)	-	(73)
Operating loss		**(1,274)**	**(56)**	**(1,330)**	**(1,779)**	**(100)**	**(1,879)**	**(827)**	**(2)**	**(829)**
Finance costs		(1,353)	-	(1,353)	(1,363)	-	(1,363)	(456)	-	(456)
Finance income		2,631	-	2,631	670	-	670	600	-	600
Net finance income / (costs)		**1,278**	**-**	**1,278**	**(693)**	**-**	**(693)**	**144**	**-**	**144**
Income / (loss) before inc. tax exp.		**4**	**(56)**	**(52)**	**(2,472)**	**(100)**	**(2,572)**	**(683)**	**(2)**	**(685)**
Income tax expense		(81)	-	(81)	(43)	-	(43)	(16)	-	(16)
Net loss from continuing operations		**(77)**	**(56)**	**(133)**	**(2,515)**	**(100)**	**(2,615)**	**(699)**	**(2)**	**(701)**
Discontinued operations										
Loss from discontinued operations		(960)	-	(960)	(886)	-	(886)	(48)	-	(48)
Net loss for the period		**(1,037)**	**(56)**	**(1,093)**	**(3,401)**	**(100)**	**(3,501)**	**(747)**	**(2)**	**(749)**
Other comprehensive income:										
Currency translation differences		1	-	1	85	-	85	111	-	111
Total other comprehensive inc.		**1**	**-**	**1**	**85**	**-**	**85**	**111**	**-**	**111**
Total comprehensive loss for the period		**(1,036)**	**(56)**	**(1,092)**	**(3,316)**	**(100)**	**(3,416)**	**(636)**	**(2)**	**(638)**
Earnings per share:										
Continuing operations										
Basic and diluted		-	-	-	-	-	-	-	-	-
Discontinued operations										
Basic and diluted		-	-	-	-	-	-	-	-	-
Continuing and discontinued ops.										
Basic and diluted		-	-	-	-	-	-	-	-	-

(d) The following IFRS conversion adjustments have been adopted by the Company in order to present these condensed consolidated interim 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 & 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, $141.8 million at September 30, 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 amortization 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 premium account and reduced accumulated deficit at the date of transition by $45 and increased share based payment expenses by $2 and $100 for the three and nine months ended September 30, 2010 and $56 for the year ended December 31, 2010.

iii. For the period ended January 1, 2010 the assets and liabilities associated with the Company's discontinued operations were not presented separately on the Canadian GAAP consolidated balance sheet. Under *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* the assets and liabilities associated with discontinued operations are presented separately from other assets and liabilities on the consolidated balance sheet and separate disclosure of the major classes of assets and liabilities should be included within the notes to the consolidated financial statements. Therefore current assets held by continuing operations have been decreased by $0.8 million at January 1, 2010, current liabilities held by continuing operations have been decreased by $2.8 million at January 1, 2010 and non-current liabilities held by continuing operations have been decreased by $0.4 million at January 1, 2010 in converting from Canadian GAAP to IFRS.

(e) 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, September 30, 2010 and December 31, 2010.

6. Business and geographical segments

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

7. General and administrative expenses

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
General and administrative expenses incurred	1,629	1,485	6,163	3,602
General and administrative expenses capitalized as E&E assets	(1,831)	(842)	(5,364)	(2,380)
General and administrative expense / (recovery)	**(202)**	**643**	**799**	**1,222**

The Company capitalizes as E&E assets those general and exploration expenses incurred which qualify under the terms of the PSCs as recoverable petroleum costs.

Refer also to note 12.

8. Finance cost

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Guarantee fees	207	457	663	1,363
Unwinding of discount on decommissioning provision	1	-	1	-
Foreign exchange loss	2,572	-	1,320	-
	2,780	**457**	**1,984**	**1,363**

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 21 for related party disclosures.

For the three and nine months ended September 30, 2011 the foreign exchange losses of $2.6 million and $1.3 million 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.

9. Finance income

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interest income	147	99	424	239
Foreign exchange gain	-	501	-	431
	147	**600**	**424**	**670**

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

For the three and nine months ended September 30, 2010 the foreign exchange gains of $0.5 million and $0.4 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.

10. Taxation

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Income tax expense	32	16	106	43
	32	**16**	**106**	**43**

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.

11. Discontinued operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
Expenses				
General and administrative, other	46	47	167	624
Asset retirement obligation	-	-	-	339
Operating loss	**46**	**47**	**167**	**963**
Gain on disposal of assets	**-**	**-**	**-**	**77**
Net loss attributable to discontinued operations	**46**	**47**	**167**	**886**

During the nine months ended September 30, 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 condensed consolidated balance sheet are as follows:

	30 Jun 11	31 Dec 10
Assets		
Trade and other receivables	59	59
Other assets	30	15
	89	**74**
Liabilities		
Trade payables and accrued expenses	659	1,378
Provision	2,134	1,691
	2,793	**3,069**
Net liabilities	**2,704**	**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.

12. Intangible assets

	Exploration & evaluation assets	Other intangible assets	Total
At January 1, 2010			
Cost	184,953	84	185,037
Accumulated depreciation	-	(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)
Depreciation 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 depreciation	-	(70)	(70)
Net book value	**149,692**	**200**	**149,892**
For the nine months ended September 30, 2011			
Opening net book value	149,692	200	149,892
Additions	77,026	-	77,026
Depreciation expense	-	(74)	(74)
Exchange differences	-	11	11
Net book value	**226, 718**	**137**	**226,855**
At September 30, 2011			
Cost	226,718	280	226,998
Accumulated depreciation	-	(143)	(143)
Net book value	**226,718**	**137**	**226,855**

Included in exploration and evaluation expenditures as at September 30, 2011 is $1.3 million related to provisions for decommissioning obligations (December 31, 2010: $nil).

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 $1.1 million were capitalized during the nine months ended September 30, 2011 and $0.6 million for the year ended December 31, 2010. The cumulative total exploration overhead charge included in intangible E&E assets was $1.9 million at September 30, 2011 and $0.8 million at December 31, 2010. 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.

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

13. Property, plant & equipment

	Oil & 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 nine months ended September 30, 2011				
Opening net book value	-	137	193	330
Additions	603	24	6	633
Depreciation expense	(108)	(58)	(35)	(201)
Exchange differences	-	7	6	13
Net book value	**495**	**110**	**170**	**775**
At September 30, 2011				
Cost	603	234	228	1,065
Accumulated depreciation	(108)	(124)	(58)	(290)
Net book value	**495**	**110**	**170**	**775**

14. 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 & 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 nine months ended September 30, 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:

	30 Sep 11	31 Dec 10
Cumulative cash contributions	45,147	27,360
Common share contribution	5,000	5,000
Deferred consideration	-	12,643
Acquisition costs	204	204
Share of net losses since acquisition	(308)	(27)
Recovery of costs from partner	(898)	(898)
Total investment in associate	**49,145**	**44,282**

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Total loss of associate	(516)	(218)	(841)	(218)
Company's 33.5% share of loss of associate	**(173)**	**(73)**	**(282)**	**(73)**

15. Accounts payable and accrued expenses

	30 Sep 11	31 Dec 10
Trade accounts payable	16,319	5,142
Accrued expenses	4,350	4,263
Net payables to joint venture partners	350	14
Total accounts payable and accrued expenses	**21,019**	**5,156**

The accounts payable and accrued expense balance at September 30, 2011 includes charges and estimates directly related to the exploration activities in the amounts of $17.5 million in the Pulkhana Block, $0.1 million in the Arbat Block and $3.4 million in other charges related to other exploration and corporate activities.

16. Provisions

The Company has provided for decommissioning and site restoration costs in relation to the exploration and appraisal activities undertaken to date on interests in production sharing contracts in Kurdistan.

At January 1, 2010	-
At December 31, 2010	-
Additions to provision for the period	1,590
Changes in estimates or timing of cash flows	(247)
Unwinding of the discount on provision	1
Total decommissioning and site restoration costs	**1,344**

17. 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	56,000,000	51,256
Share options exercised	1,301,666	1,065
Balance at September 30, 2011	**680,483,860**	**484,828**

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 12.

18. 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 stock 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 September 30, 2011	**3,233,334**	**0.72**

The cancelled/forfeited options during the nine months ended September 30, 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 September 30, 2011	2,516,669	0.77

The Company recognizes compensation expense on stock 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 stock option compensation 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)	3.21%	3.21%
Expected stock price volatility (weighted average)	86.95%	86.95%
Expected option life in years (weighted average)	4.11	4.11
Grant date fair value (weighted average)	CAD 0.36	CAD 0.37

Stock option compensation expense for the three and nine months ended September 30, 2011 was $70 (2010: $73) and $243 (2010: $488).

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 stock options.

19. Commitments and contingencies

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.

The PSCs contemplate a minimum financial commitment of approximately $75 million in respect of the first exploration sub-period for the three Blocks combined. The PSCs also require the Contractor to fund certain personnel, training, environmental, and technological assistance projects during the period over which the contracts are in effect. As at September 30, 2011, the Company had executed $25.0 million of its minimum financial obligations through the completion of its three dimensional ("2D") seismic acquisition program in the three Blocks and the drilling of the Pulkhana 9 exploration and appraisal well.

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.

20. 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	**30 Sep 11**	**31 Dec 10**	**30 Sep 11**	**31 Dec 10**
Current assets					
Other receivables		146	124	-	-
Other current assets, excluding prepaid expense		51	91	-	-
Cash and cash equivalents		28,617	58,684	-	-
Financial assets associated with discontinued operations	11	59	59	-	-
Total financial assets		**28,873**	**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.

Financial assets associated with discontinued operations at September 30, 2011 include trade and other receivables of $59. Refer to note 11 for additional disclosure on discontinued operations.

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	30 Sep 11	31 Dec 10
Current financial liabilities			
Trade and other payables	15	21,019	5,156
Current tax liabilities		96	103
Deferred consideration	14	-	12,643
Financial liabilities associated with discontinued operations	11	2,793	3,069
Total financial liabilities		**23,908**	**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.

21. Related party transactions

	Purchases of services three months ended September 30		Purchases of services nine months ended September 30		Amounts owing (due from) as at:	
					September 30	December 31
	2011	2010	2011	2010	2011	2010
Namdo Management Services Ltd.	119	23	295	110	(13)	1
Mile High Holdings Ltd.	-	(76)	31	139	-	-
McCullough O'Connor Irwin LLP	8	19	52	60	7	12
Vostok Naphta Investment Ltd.	10	-	14	-	-	-
Lundin Petroleum AB	342	757	1,677	2,351	330	454
Total	**479**	**723**	**2,069**	**2,660**	**324**	**467**

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

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

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

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

The Company receives services from various subsidiary companies of Lundin Petroleum AB ("Lundin"), a shareholder of the Company. Lundin charges during the three and nine months ended September 30, 2011 of $342 (2010: $757) and $1,677 (2010: $2,351) were comprised of G&G and other technical service costs of $38 (2010: $45) and $106 (2010: $169), reimbursement for Company travel and related expenses of $nil (2010: $164) and $610 (2010: $497), office rental, administrative and building services of $98 (2010: $92) and $298 (2010: $322), and $206 (2010: $456) and $663 (2010: $1,363) 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).

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.

22. Events after the balance sheet date

On November 15, 2011 the Company closed a private placement of 127.5 million common shares at CAD 0.40 per share resulting in gross proceeds of CAD 51.0 million. A 4% finders' fee is payable in cash on a portion of the private placement. Of the total shares issued, 24% was subscribed by Zebra Holdings and Investments S.à.r.l. and Lorito Holdings S.à.r.l., which are private corporations owned by a trust whose settler is the Estate of the late Adolf H. Lundin.

Forward-Looking Statements

This report contains forward-looking statements concerning anticipated developments on the Company's operations; the adequacy of the Company's financial resources; financial projections, including, but not limited to, estimates of capital and operating costs, production rates, commodity prices, exchange rates, net present values; and other events and conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by the words such as "expects," "anticipates," "believes," "intends," "estimates," "potential," "possible," "budget" and similar expressions, or statements that events, conditions or results "will," "may," "could," or "should" occur or be achieved. Information concerning the interpretation of drill results and reserve estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what might be found to be present if and when a project is actually developed. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in this MD&A.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

Additional Information

Additional information related to the Company is available on SEDAR at **www.sedar.com** and on the Company's web-site at **www.shamaranpetroleum.com**.

SHAMARAN PETROLEUM CORP.

DIRECTORS

Keith C. Hill
Director, Chairman
Vancouver, British Columbia

Pradeep Kabra
Director, President & Chief Executive Officer
Geneva, Switzerland

Brian D. Edgar
Director
Vancouver, British Columbia

Gary S. Guidry
Director
Calgary, Alberta

Alexandre Schneiter
Director
Anieres, Switzerland

J. Cameron Bailey
Director
Calgary, Alberta

OFFICERS

Brenden Johnstone
Chief Financial Officer
Geneva, Switzerland

Kevin E. Hisko
Corporate Secretary
Vancouver, British Columbia

CORPORATE INFORMATION

CORPORATE OFFICE
885 West Georgia Street
Suite 2000
Vancouver, British Columbia V6C 3E8
Telephone: +1-604-689-7842
Facsimile: +1-604-689-4250
Website: www.shamaranpetroleum.com

OPERATIONS OFFICE
5 Chemin de la Pallanterie
1222 Vésenaz
Switzerland
Telephone: +41-22-560-8600
Facsimile: +41-22-560-8601

BANKER
HSBC Bank Canada
Vancouver, British Columbia

AUDITOR
PricewaterhouseCoopers LLP
London, UK

TRANSFER AGENT
Computershare Trust Company of Canada
Vancouver, British Columbia

STOCK EXCHANGE LISTINGS
TSX Venture Exchange &
NASDAQ OMX First North Exchange
Trading Symbol: SNM

INVESTOR RELATIONS
Sophia Shane
Vancouver, British Columbia