GREENFIELDS PETROLEUM CORPORATION

Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2013

The accompanying unaudited condensed consolidated financial statements of Greenfields Petroleum Corporation for the three and nine months ended September 30, 2013 and 2012 are the responsibility of the Company's management.

The Company's independent auditor, Deloitte LLP, has not performed a review of these condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by the entity's auditor.

On January 1, 2013 the Company changed accounting for its interest in Bahar Energy Limited, a joint venture, from proportionately consolidated to the equity method of accounting. This was required under IFRS 11, "*Joint Arrangements*", issued on May 12, 2011, which replaces IAS 31, "*Interest in Joint Ventures*". The standard is effective for annual periods beginning on or after January 1, 2013. See *Note 3* – "*Changes in Accounting Policies*" and *Note 8* – "*Investment in Joint Ventures*" in these condensed consolidated financial statements for the three and nine months ended September 30, 2013 for more information.

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GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited, US$000's

	Notes	As at September 30, 2013	As at December 31, 2012	As at January 1, 2012
			Restated *(Note 3)*	Restated *(Note 3)*
Assets				
Current Assets				
Cash and cash equivalents	5	3,986	12,404	23,985
Short term investments	6	-	1,693	3,488
Receivables from related party	7	1,699	4,401	1,838
Other receivables		28	238	59
Prepaid expenses and deposits		45	119	107
		5,758	18,855	29,477
Non-Current Assets				
Investments		-	-	228
Investment in joint venture	8	38,590	21,510	1,564
Property and equipment		129	195	71
		44,477	40,560	31,340
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	9	2,233	2,233	883
Provisions		-	-	1,000
Warrants		-	-	976
		2,233	2,233	2,859
Non-current Liabilities				
Convertible Debentures	10	18,635	20,542	-
Shareholders' Equity	11			
Common shares		18	16	15
Paid in capital		70,571	61,519	56,705
Share-based payments reserve	12	4,462	4,337	3,830
Deficit		(51,442)	(48,098)	(32,023)
Investments revaluation reserve		-	11	(46)
Total Shareholders' Equity		23,609	17,785	28,481
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 15)		44,477	40,560	31,340

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

(signed) "John W. Harkins"
John W. Harkins
Director

(signed) "Gerald F. Clark"
Gerald F. Clark
Director

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS

Unaudited, US$000's except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
		Restated *(Note 3)*		Restated *(Note 3)*
Revenues				
Management service fees	575	733	1,946	1,907
	575	733	1,946	1,907
Expenses				
Pre-licensing costs	-	76	-	596
Administrative	1,380	2,810	6,220	8,815
Depreciation and amortization	24	25	73	53
	1,404	2,911	6,293	9,464
Loss from operating activities	(829)	(2,178)	(4,347)	(7,557)
(Income)Loss on investment in joint venture *(Note 8)*	(1,578)	(1,839)	(611)	2,046
Dividends, interest and other income *(Note 13)*	(9)	(16)	(32)	(48)
Interest expense	788	847	2,349	1,133
Impairment of receivables recovery	-	(1,087)	-	(1,087)
Provisions	-	-	-	(125)
Foreign exchange (gain) or loss	355	674	(705)	815
Change in fair value of derivative liability *(Note 10)*	(327)	(275)	(2,004)	191
Change in fair value of warrants	-	-	-	(341)
Loss before income taxes	(58)	(482)	(3,344)	(10,141)
Net loss	(58)	(482)	(3,344)	(10,141)
Per share				
Net loss per share, basic and diluted *(Note 11)*	($0.00)	($0.03)	($0.21)	($0.66)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

US$000's

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Loss	(58)	(482)	(3,344)	(10,141)
Gain or (loss) arising from revaluation of available for sale financial assets during the period	-	15	(11)	61
	-	15	(11)	61
Total comprehensive loss	(58)	(467)	(3,355)	(10,080)

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

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited, US$000's

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012 Restated *(Note 3)*
Common shares *(Note 11)*		
Balance, beginning of period	16	15
Warrants/Options exercise	-	1
Shares issued pursuant to private & public placements	2	-
Balance, end of period	18	16
Paid in capital		
Balance, beginning of period	61,519	56,705
Shares issued pursuant to private & public placements, net of agent fees	8,975	-
Repurchase of common shares	(92)	(138)
Exercise of options	-	1,343
Share issue costs	(316)	-
Warrant exercise and liability reclassification	-	3,237
Share-based payments	485	226
Balance, end of period	70,571	61,373
Share-based payments reserve *(Note 12)*		
Balance, beginning of period	4,337	3,830
Share-based payments	125	905
Share options exercised and other adjustments	-	(489)
Balance, end of period	4,462	4,246
Deficit		
Balance, beginning of period	(48,098)	(32,023)
Net loss	(3,344)	(10,141)
Balance, end of period	(51,442)	(42,164)
Investment revaluation reserve		
Balance, beginning of period	11	(46)
Other comprehensive income for the period	(11)	61
Balance, end of period	-	15
Total Shareholders' Equity	23,609	23,486

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

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited, US$000's

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
		Restated *(Note 3)*		Restated *(Note 3)*
Operating Activities				
Loss before income taxes	(58)	(482)	(3,344)	(10,141)
Items not affecting cash:				
Share-based compensation *(Note 12)*	40	202	611	1,131
Depreciation and amortization	24	25	73	53
(Income)Loss on investment in joint venture	(1,578)	(1,839)	(611)	2,046
Dividends and interest from short term investments	(5)	(16)	(28)	(48)
Interest expense	788	846	2,349	1,132
Unrealized FX (gain)loss	369	668	(686)	793
Provisions	-	(125)	-	(125)
(Gain)Loss from derivative liability *(Note 10)*	(327)	(275)	(2,004)	191
Change in fair value of warrants	-	-	-	(341)
Cash used in operating activities before changes in non-cash working capital	(747)	(996)	(3,640)	(5,309)
Change in non-cash operating working capital *(Note 14)*	1,187	(1,711)	2,448	(2,675)
Cash From (Used in) Operating Activities	440	(2,707)	(1,192)	(7,984)
Financing Activities				
Proceeds from issue of common shares, net of agent fees	2,520	-	8,977	3,581
Share issue costs	(93)	-	(316)	-
Convertible debentures proceeds	-	-	-	22,925
Convertible debentures issue costs	-	377	-	(1,197)
Cash interest paid on convertible debentures	-	-	(1,030)	-
Repurchase of common shares	-	(18)	(92)	(138)
Change in non-cash working capital *(Note 14)*	(223)	(372)	-	-
Cash From (Used in) Financing Activities	2,204	(13)	7,539	25,171
Investing Activities				
Property and equipment	(7)	(6)	(7)	(199)
Investment in joint venture *(Note 8)*	(5,400)	(2,834)	(16,469)	(23,705)
Short term investments *(Note 6)*	-	801	1,693	1,865
Cash interest received	-	32	32	68
Dividends from equity investment	5	-	16	142
Cash Used in Investing activities	(5,402)	(2,007)	(14,735)	(21,829)
Effect of exchange rates on changes on cash and cash equivalents	23	159	(30)	377
Decrease in Cash and Cash Equivalents	(2,735)	(4,568)	(8,418)	(4,265)
Cash and Cash Equivalents, beginning of period	6,721	24,288	12,404	23,985
Cash and Cash Equivalents, end of period *(Note 5)*	3,986	19,720	3,986	19,720

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

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation ("**Greenfields**" or the "**Company**"), incorporated in the Cayman Islands, is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan ("**Azerbaijan**"). The head office of the Company is located at 211 Highland Cross Drive, Suite 227, Houston, Texas, 77073, U.S.A., and the registered office is located at Walker House, 87 Mary Street, George Town, Grand Cayman, KY1-9005, Cayman Islands. The Company's common shares and convertible debentures are listed on Toronto's TSX – Venture Exchange ("**TSX-V**") under the trading symbols "GNF" and "GNF.DB", respectively.

The Company owns 33.33% interest in Bahar Energy Limited ("**Bahar Energy**"), a joint venture that on December 22, 2009 entered into an Exploration, Rehabilitation, Development and Production Sharing Agreement (the "**ERDPSA**") with the State Oil Company of Azerbaijan ("**SOCAR**") and its affiliate SOCAR Oil Affiliate ("**SOA**") in respect of the offshore block known as the Bahar Project ("**Bahar Project**"), which project consists of the Bahar Gas Field and the Gum Deniz Oil Field. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the "**Contractors** or **Contractor Parties**"). Bahar Energy formed Bahar Energy Operating Company Limited ("**BEOC**") for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

On January 1, 2013 the Company changed accounting for its interest in Bahar Energy Limited, a joint venture, from proportionately consolidated to the equity method of accounting. This was required under IFRS 11, "Joint Arrangements", issued on May 12, 2011, which replaces IAS 31, "Interest in Joint Ventures". The standard is effective for annual periods beginning on or after January 1, 2013. For more information, see *Note 3 – Changes in Accounting Policies and Note 8 – Investment in Joint Ventures* in these condensed consolidated financial statements for the three and nine months ended September 30, 2013.

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements are stated in United States dollars and have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**").

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2012 prepared in accordance with *International Financial Reporting Standards* ("**IFRS**"). The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations effective as of January 1, 2013 which details are discussed in Notes 3 and 4.

The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments (warrants and convertible debentures) and share-based compensation transactions which are measured at fair value.

The Company's joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment in the joint venture is dependent upon the joint venture's ability to reach a contractually required production increase or average target production rate for the Bahar Project of 6,944 boe/d during a 90 days period ("**TPR1**") and complete the development of properties, including related financing requirements. As at September 30, 2013 the Company's ability to continue as a going concern is dependent on management's ability to secure adequate financing, meet the contractual production rates and, ultimately, achieving long term profitable operations. There is no certainty that such financing will be obtained on terms acceptable to management which may cast significant doubt about the Company's ability to continue as going concern. In addition, the failure to reach the contractual production rates would significantly impact the financial position of the Company.

Subsequent to September 30, 2013 the Company secured additional funding through a $25 million loan facility with the proceeds primarily dedicated to finance the Company's ongoing development operations for the Bahar Project over the next 12 to 18 months. See *Note 18 –Subsequent Events.* The Bahar Project is currently producing approximately 7,731 boe/d and over the last 43 days has averaged production rates of 6,949 boe/d, or the equivalent to 48% towards the 90 days TPR1 production target. The Company's management expects the Bahar Project's production to reach the TPR1 production milestone by the end of 2013.

These condensed consolidated financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realize its assets and discharge its liabilities in the normal course of operations. These condensed consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

3. CHANGE IN ACCOUNTING POLICIES

The Company changed accounting for its interest in a joint venture from proportionately consolidated accounting to the equity method of accounting beginning January 1, 2013. This is required under IFRS 11, "Joint Arrangements", issued on May 12, 2011, which replaces IAS 31, "Interest in Joint Ventures".
The standard is effective for annual periods beginning on or after January 1, 2013. The new standard redefines joint operations and joint ventures requiring entities to record their share of assets and liabilities associated with joint operations and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated. The Company has applied IFRS 11 beginning on January 1, 2013 with retrospective application from the date of earliest period presented which is January 1, 2012. This change in accounting policy reduced total assets, total liabilities, revenues and expenses but had no significant impact on the Company's net assets, net earnings, cash flows or earnings per share. IFRS 12 requires entities to disclose information about the nature of interest in joint venture, which has resulted in additional disclosures in *Note 8 – Investment in Joint Venture.*

The Company applies the following policy for its investment in the jointly controlled entity accounted for under the equity method:

- Initial investments are recognized at cost. Cost is the fair value of the consideration paid by the Company.
- The Company's share of post-acquisition profits or losses is recognized in profit or loss and its share of post-acquisition other comprehensive income is recognized in other comprehensive income (loss).
- The post-acquisition movements including additional funding via cash calls, related interest financing charges and distributions received are adjusted against the Company's carrying amount of the investments.
- When the Company's share of losses in the jointly controlled entity equals or exceeds its interest in the investment, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Company resumes recognition of its share of those profits only after its share of the profits equals the share of losses not recognized.
- Unrealized gains on transactions between the Company and the jointly controlled entity are eliminated to the extent of the Company's interest in the jointly controlled entity. Unrealized

losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The following tables summarize the adjustments made to the Company's statements of financial position at January 1, 2012 and December 31, 2012, its condensed consolidated statements of net loss and comprehensive loss and cash flows for the three and nine months ended September 30, 2012.

Consolidated Statement of Financial Position as at January 1, 2012
US$000's

Assets	As previously stated	Adjustments (a)	As restated
Current Assets			
Cash and cash equivalents	25,289	(1,304)	23,985
Short term investments	3,488	-	3,488
Trade receivables	3,310	(3,310)	-
Receivables from related parties	1,838	-	1,838
Other receivables	61	(2)	59
Prepaid expenses and deposits	310	(203)	107
Inventories	2,263	(2,263)	-
	36,559	(7,082)	29,477
Non-Current Assets			
Investments	228	-	228
Investment in joint venture	-	1,564	1,564
Note receivable from related party	8,965	(8,965)	-
Advances for capital equipment	2,752	(2,752)	-
Property and equipment	4,583	(4,512)	71
	53,087	(21,747)	31,340
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	4,255	(3,372)	883
Short term borrowing	1,018	(1,018)	-
Provisions	1,000	-	1,000
Payables to related parties	612	(612)	-
Warrants	976	-	976
	7,861	(5,002)	2,859
Non-current Liabilities			
Notes payable to related parties	16,745	(16,745)	-
Shareholders' Equity			
Common shares	15	-	15
Paid in capital	56,705	-	56,705
Share-based payments reserve	3,830	-	3,830
Deficit	(32,023)	-	(32,023)
Investments revaluation reserve	(46)	-	(46)
Total Shareholders' Equity	28,481	-	28,481
	53,087	(21,747)	31,340

Consolidated Statement of Financial Position as at December 31, 2012

US$000's

Assets	As previously stated	Adjustments (a)	As restated
Current Assets			
Cash and cash equivalents	15,419	(3,015)	12,404
Short term investments	1,693	-	1,693
Trade receivables	3,591	(3,591)	-
Receivables from related parties	4,401	-	4,401
Other receivables	300	(62)	238
Advances for operating services	134	(134)	-
Prepaid expenses and deposits	119	-	119
Inventories	1,590	(1,590)	-
	27,247	(8,392)	18,855
Non-Current Assets			
Investment in joint venture	-	21,510	21,510
Note receivable from related party	37,919	(37,919)	-
Advances for capital equipment	386	(386)	-
Property and equipment	24,763	(24,568)	195
	90,315	(49,755)	40,560
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	12,968	(10,735)	2,233
Payables to related parties	902	(902)	-
	13,870	(11,637)	2,233
Non-current Liabilities			
Notes payable to related parties	38,118	(38,118)	-
Convertible Debentures	20,542	-	20,542
Shareholders' Equity			
Common shares	16	-	16
Paid in capital	61,519	-	61,519
Share-based payments reserve	4,337	-	4,337
Deficit	(48,098)	-	(48,098)
Investments revaluation reserve	11	-	11
Total Shareholders' Equity	17,785	-	17,785
	90,315	(49,755)	40,560

(a) Upon adoption of IFRS 11, the Company changed the accounting for its investment in Bahar Energy from proportionate consolidation to the equity method. As a result the Company:

- Recognized its investment in Bahar Energy as at January 1, 2012. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the Company had previously proportionately consolidated.
- Retrospectively restated its condensed consolidated financial statements for the three and nine months periods ended September 30, 2012 and the condensed consolidated statement of financial position as at December 31, 2012, to remove the Company's proportionate share of the net assets, liabilities, revenues, and expenses and account for its investment in Bahar Energy on a net basis in accordance with the Company's accounting policy for Investment in Joint Venture under IFRS 11 as described above.

Condensed Consolidated Statement of Net loss

US$000's except per share amounts

	Three Months Ended September 30, 2012		
	As previously stated	Adjustments (a)	As restated
Revenues			
Petroleum and natural gas	5,815	(5,815)	-
Transportation and storage fees	408	(408)	-
Management service fees	733	-	733
	6,956	(6,223)	733
Expenses			
Operating	2,931	(2,931)	-
Transportation	78	(78)	-
Exploration and evaluation	233	(233)	-
Pre-licensing costs	76	-	76
Administrative	3,700	(890)	2,810
Depreciation and amortization	305	(280)	25
	7,323	(4,412)	2,911
Loss from operating activities	(367)	(1,811)	(2,178)
Income on investment in joint venture	-	(1,839)	(1,839)
Dividends, interest and other income	(411)	395	(16)
Interest expense	1,214	(367)	847
Impairment of receivables recovery	(1,087)	-	(1,087)
Foreign exchange loss	674	-	674
Change in fair value of derivative liability	(275)	-	(275)
Loss before income taxes	(482)	-	(482)
Net loss	(482)	-	(482)
Per share	($0.03)	-	($0.03)
Net loss per share, basic and diluted			

Consolidated statement of comprehensive loss

Net Loss	(482)	-	(482)
Gain (Loss) arising from revaluation of available for sale financial assets during the period	15	-	15
	15	-	15
Total comprehensive loss	(467)	-	(467)

(a) Upon adoption of IFRS 11, the Company changed the accounting for its investment in Bahar Energy from proportionate consolidation to the equity method. As a result the Company:

- Recognized its investment in Bahar Energy as at January 1, 2012. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the Company had previously proportionately consolidated.
- Retrospectively restated its condensed consolidated financial statements for the three and nine months periods ended September 30, 2012 and the condensed consolidated statement of financial position as at December 31, 2012, to remove the Company's proportionate share of the net assets, liabilities, revenues, and expenses and account for its investment in Bahar Energy on a net basis in accordance with the Company's accounting policy for Investment in Joint Venture under IFRS 11 as described above.

Condensed Consolidated Statement of Net loss

US$000's except per share amounts

	Nine Months Ended September 30, 2012			
	As previously stated	Adjustments (b)	Adjustments (c)	As restated
Revenues				
Petroleum and natural gas	16,002	-	(16,002)	-
Transportation and storage fees	1,370	-	(1,370)	-
Management service fees	1,907	-	-	1,907
	19,279	-	(17,372)	1,907
Expenses				
Operating	12,877	-	(12,877)	-
Transportation	223	-	(223)	-
Exploration and evaluation	2,046	-	(2,046)	-
Asset impairment	-	1,800	(1,800)	-
Pre-licensing costs	596	-	-	596
Administrative	10,744	-	(1,929)	8,815
Depreciation and amortization	578	-	(525)	53
	27,064	1,800	(19,400)	9,464
Loss from operating activities	(7,785)	(1,800)	2,028	(7,557)
Loss on investment in joint venture	-	-	2,046	2,046
Dividends, interest and other income	(979)	-	931	(48)
Interest expense	2,082	-	(949)	1,133
Impairment of receivables recovery	(1,087)	-	-	(1,087)
Provisions	(125)	-	-	(125)
Foreign exchange loss	815	-	-	815
Change in fair value of derivative liability	191	-	-	191
Change in fair value of warrants	(341)	-	-	(341)
Loss before income taxes	(8,341)	(1,800)	-	(10,141)
Net loss	(8,341)	(1,800)	-	(10,141)
Per share				
Net loss per share, basic and diluted	($0.54)	($0.12)	-	($0.66)

Consolidated statement of comprehensive loss

Net Loss	(8,341)	(1,800)	-	(10,141)
Gain (Loss) arising from revaluation of available for sale financial assets during the period	61	-	-	61
	61	-	-	61
Total comprehensive loss	(8,280)	(1,800)	-	(10,080)

(b) For the nine months ended September 30, 2012, the Company recorded $1.8 million in asset impairment expenses. See Note 27 to the Consolidated Financial Statements for the year ended December 31, 2012.

(c) Upon adoption of IFRS 11, the Company changed the accounting for its investment in Bahar Energy from proportionate consolidation to the equity method. As a result the Company:

- Recognized its investment in Bahar Energy as at January 1, 2012. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the Company had previously proportionately consolidated.
- Retrospectively restated its condensed consolidated financial statements for the three and nine months ended September 30, 2012 and the condensed consolidated statement of financial position as at December 31, 2012, to remove the Company's proportionate share of the net assets, liabilities, revenues, and expenses and account for its investment in Bahar Energy on a net basis in accordance with the Company's accounting policy for Investment in Joint Venture under IFRS 11 as described above.

Condensed Consolidated Statements of Cash Flows
US$000's

	Three Months Ended September 30, 2012		
	As previously stated	Adjustments (a)	As restated
Operating Activities			
Loss before income taxes	(482)	-	(482)
Items not affecting cash:			
Share-based compensation	202	-	202
Depreciation and amortization	305	(280)	25
Income on investment in joint venture	-	(1,839)	(1,839)
Dividends and interest from short term investments	(16)	-	(16)
Interest income related party notes	(395)	395	-
Interest expense long term debt	846	-	846
Interest expense note payable related party	367	(367)	-
Provisions	(125)	-	(125)
Unrealized FX loss	668	-	668
Loss from derivative liability	(275)	-	(275)
Cash from (used in) operating activities before changes in non-cash working capital	1,095	(2,091)	(996)
Change in non-cash operating working capital	(905)	(806)	(1,711)
Cash From (Used in) Operating Activities	190	(2,897)	(2,707)
Financing Activities			
Convertible debenture issue costs	377	-	377
Repurchase of common shares	(18)	-	(18)
Change in non-cash working capital	(372)	-	(372)
Proceeds from related party notes payable	1,934	(1,934)	-
Cash From (Used in) Financing Activities	1,921	(1,934)	(13)
Investing Activities			
Property and equipment	(6,856)	6,850	(6)
Advances for capital equipment	(736)	736	-
Notes receivable from related parties	(2,834)	2,834	-
Investments	801	-	801
Investment in joint venture	-	(2,834)	(2,834)
Cash interest received	32	-	32
Dividends from equity investment	-	-	-
Cash From (Used in) Investing activities	(9,593)	7,586	(2,007)
Effect of exchange rates on changes in cash and cash equivalents	159	-	159
(Decrease) Increase in Cash and Cash Equivalents	(7,323)	2,755	(4,568)
Cash and Cash Equivalents, beginning of period	29,917	(5,629)	24,288
Cash and Cash Equivalents, end of period	22,594	(2,874)	19,720

(a) Upon adoption of IFRS 11, the Company changed the accounting for its investment in Bahar Energy from proportionate consolidation to the equity method. As a result the Company:

- Recognized its investment in Bahar Energy as at January 1, 2012. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the Company had previously proportionately consolidated.
- Retrospectively restated its condensed consolidated financial statements for the three and nine months ended September 30, 2012 and the condensed consolidated statement of financial position as at December 31, 2012, to remove the Company's proportionate share of the net assets, liabilities, revenues, and expenses and account for its investment in Bahar Energy on a net basis in accordance with the Company's accounting policy for Investment in Joint Venture under IFRS 11 as described above.

Condensed Consolidated Statements of Cash Flows
US$000's

	Nine Months Ended September 30, 2012			
	As previously stated	Adjustments (b)	Adjustments (c)	As restated
Operating Activities				
Loss before income taxes	(8,341)	(1,800)	-	(10,141)
Items not affecting cash:				
Share-based compensation	1,131	-	-	1,131
Depreciation and amortization	578	-	(525)	53
Loss on investment in joint venture	-	-	2,046	2,046
Asset impairment	-	1,800	(1,800)	-
Dividends and interest from short term investments	(48)	-	-	(48)
Interest income related party notes	(931)	-	931	-
Interest expense long term debt	1,132	-	-	1,132
Interest expense note payable related party	949	-	(949)	-
Provisions	(125)	-	-	(125)
Unrealized FX loss	793	-	-	793
Loss from derivative liability	191	-	-	191
Change in fair value of warrants	(341)	-	-	(341)
Cash from (used in) operating activities before changes in non-cash working capital	(5,012)	-	(297)	(5,309)
Change in non-cash operating working capital	(2,420)	-	(255)	(2,675)
Cash From (Used in) Operating Activities	(7,432)	-	(552)	(7,984)
Financing Activities				
Proceeds from issue of common shares	3,581	-	-	3,581
Convertible debenture proceeds, net of agent fees	22,925	-	-	22,925
Convertible debenture issue costs	(1,197)	-	-	(1,197)
Repurchase of common shares	(138)	-	-	(138)
Proceeds from related party notes payable	15,501	-	(15,501)	-
Cash From (Used in) Financing Activities	40,672	-	(15,501)	25,171
Investing Activities				
Property and equipment	(8,010)	-	7,811	(199)
Advances for capital equipment	(6,672)	-	6,672	-
Notes receivable from related parties	(23,705)	-	23,705	-
Investments	1,865	-	-	1,865
Investment in joint venture	-	-	(23,705)	(23,705)
Cash interest received	68	-	-	68
Dividends from equity investment	142	-	-	142
Cash From (Used in) Investing activities	(36,312)	-	14,483	(21,829)
Effect of exchange rates on changes in cash and cash equivalents	377	-	-	377
(Decrease) Increase in Cash and Cash Equivalents	(2,695)	-	(1,570)	(4,265)
Cash and Cash Equivalents, beginning of period	25,289	-	(1,304)	23,985
Cash and Cash Equivalents, end of period	22,594	-	(2,874)	19,720

(b) For the nine months ended September 30, 2012, the Company recorded $1.8 million in asset impairment expenses. See Note 27 to the Consolidated Financial Statements for the year ended December 31, 2012.

(c) Upon adoption of IFRS 11, the Company changed the accounting for its investment in Bahar Energy from proportionate consolidation to the equity method. As a result the Company:

- Recognized its investment in Bahar Energy as at January 1, 2012. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the Company had previously proportionately consolidated.
- Retrospectively restated its condensed consolidated financial statements for the three and nine months ended September 30, 2012 and the condensed consolidated statement of financial position as at December 31, 2012, to remove the Company's

proportionate share of the net assets, liabilities, revenues, and expenses and account for its investment in Bahar Energy on a net basis in accordance with the Company's accounting policy for Investment in Joint Venture under IFRS 11 as described above.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 13 *Fair Value Measurement.* As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. The nature and material impact of adopted standards and/or amendments are described below:

IFRS 10 "Consolidated Financial Statements"

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The standard replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure or rights to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Company.

IFRS 11 "Joint Arrangements" and IAS 28 "Investment in Associates and Joint Ventures"

IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and requires that reporting issuers consider whether a joint arrangement is structured through a separate vehicle, as well as the terms of the contractual arrangement and other relevant facts and circumstances, to assess whether the venture is entitled to only the net assets of the joint arrangement ("joint venture") or to its share of the assets and liabilities of the joint arrangement ("a joint operation"). A joint venture is accounted for using the equity method and a joint operation is accounted for by recording the entities share of the assets, liabilities, expenses and revenues in the joint operation.

The application of IFRS 11 resulted in the Company replacing proportionate consolidation of its joint venture in Bahar Energy Limited with the equity method of accounting. The effect of IFRS 11 is described in Note 3, which includes quantification of the effect in the Company's condensed consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures* was amended in 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Under IFRS 11 *Joint Arrangements*, the Company determined that its joint venture has to be consolidated under the Equity method as described by IAS 28. This change in accounting policy reduced total assets, total liabilities, revenues and expenses but had no significant impact on the Company's net assets, net earnings, cash flows or earnings per share.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Company has not made such disclosures in these interim condensed consolidated financial statements with exception of those disclosed in Notes 3 and 8.

IFRS 13 "Fair Value Measurement" and IFRS 7 "Financial Instruments: Disclosures"

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34 thereby affecting the interim condensed consolidated financial statements period. The Company provides these disclosures in Note 16.

5. CASH AND CASH EQUIVALENTS

The Company periodically invests its idle cash in deposits and short term money market investments with maturity dates of less than three months. As at September 30, 2013, the Company had $30 thousand (December 31, 2012 - $4.9 million; January 1, 2012 - $20.8 million) invested in cash equivalents earning a money market rate of interest.

6. SHORT TERM INVESTMENTS

(US$000's)	September 30, 2013	December 31, 2012	January 1, 2012
Corporate bonds at amortized cost	-	1,682	3,534
Fair market value adjustment	-	11	(46)
	-	1,693	3,488

The Company has periodically invested in investment grade corporate bonds and income producing blue chip equity instruments. As at September 30, 2013, the Company had $nil (December 31, 2012 - $1.7 million; January 1, 2012 - $3.5 million) invested in investment grade corporate bonds. For the three and nine months ended September 30, 2013, the Company earned interest income from money market and bonds of $nil and $12 thousand, respectively, (September 30, 2012 - $16 thousand and $48 thousand, respectively).

7. RECEIVABLES FROM RELATED PARTY

At September 30, 2013, the Company had a balance of $1.7 million (December 31, 2012 - $4.4 million; January 1, 2012 -$1.8 million) in accounts receivable with BEOC. Balances due are attributable to work performed under BEOC approved "Affiliate Service Orders" ("**ASO**") and Personnel Secondment Agreements. Management does not believe balances due pose collection risk as these charges are associated with amounts invoiced in the normal course of business.

For the three and nine months ended September 30, 2013 the Company recorded $0.6 million and $1.9 million, respectively, (September 30, 2012 - $0.7 million and $1.8 million, respectively) in management service fees for management, administrative and technical services performed at cost for BEOC in the normal course of business under ASO's and Personnel Secondment Agreements noted above.

8. INVESTMENT IN JOINT VENTURE

The Company owns 33.33% interest in Bahar Energy, a joint venture that on December 22, 2009 entered into an ERDPSA with SOCAR and SOA in respect of the offshore block known as the Bahar Project, which consists of the Bahar gas field, the Gum Deniz oil field and the Bahar Exploration area. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA. Bahar Energy formed BEOC for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

The Company changed accounting for its interest in Bahar Energy from proportionately consolidated accounting to the equity method of accounting beginning January 1, 2013. Refer to Note 3 for the effects of change in accounting policy.

Continuity of Investment in Joint Venture

US$000's	Investment in Joint Venture
At January 1, 2012	1,564
Funding	23,705
Share of Loss of Joint Venture	(2,045)
At September 30, 2012	23,224
Funding	3,876
Share of Loss of Joint Venture	(5,590)
At December 31, 2012	21,510
Funding	16,469
Share of Income of Joint Venture	611
At September 30, 2013	38,590

Bahar Energy, formed for the sole purpose of acquiring the rights to the ERDPSA, is a limited liability entity incorporated in the Jebel Ali Free Zone ("**JAFZA**") in Dubai, United Arab Emirates. Bahar Energy is currently owned 2/3 by Baghlan Group Limited and 1/3 by Greenfields Petroleum International Company Limited. Bahar Energy is governed by its Articles of Association and Bahar Shareholders Agreement ("**BSA**"). The registered office of Bahar Energy is LOB 15-514, P.O. Box 17870, Dubai, United Arab Emirates.

In accordance with the IFRS 11 guidance, the Company determined that the BSA represents a joint arrangement structured through Bahar Energy, a separate vehicle and entity in its own right, whose legal form creates a separation between the jointly controlling parties in the arrangement and the assets and liabilities of said vehicle. In consequence, Bahar Energy meets the definition of a joint venture in which the Company has contractually agreed sharing of control therefore representing a joint venturer in the arrangement.

The BSA requires that all resolutions put to a vote of the shareholders be approved by unanimous vote. Similarly, all resolutions put to a vote of the directors must be approved by unanimous vote, except in the following instances:

(a) If the board cannot reach a unanimous decision to approve an annual work program and budget consistent with the obligations of the ERDPSA, then the proposal capable of satisfying the minimum work and production obligations for the calendar year in question that receives the highest percentage vote shall be deemed approved by the board as the annual work program and budget.

(b) If the board cannot reach a unanimous decision regarding dividends, then the proposal receiving the highest percentage vote will prevail.

Bahar Energy funding needs are primarily covered by entitled revenue, equity contributions and shareholders' loans. To the extent that additional funds are required, the Bahar Energy shareholders have entered into a Common Terms Agreement ("**CTA**") pursuant to which each shareholder agrees to grant Bahar Energy a credit facility to be made available by way of an annual loan agreement up to a specific amount based on the annual work plan approved by the directors. Future cash flows from operations under the ERDPSA, in excess of Bahar Energy's funds required and retained for near term operations and adequate cash reserves, would be used to repay the loans.

Should a shareholder fail to execute a loan agreement or fail to make a required loan funding payment, the other shareholders by additional loan agreement may fund the amount that would otherwise be due from the defaulting shareholder. To the extent that the non – defaulting shareholder has funded the defaulted amount, any existing loan balance of a defaulting shareholder will be considered a "last in" loan and only repaid after all amounts outstanding from other funding shareholders are repaid in full. The defaulting shareholder will also temporarily lose voting rights on the Bahar Energy board and as a shareholder. At any time the defaulting shareholder may remedy the default by payment of any loan amounts due with interest. Once remedied, the shareholder's position in loan payment rights and board and shareholder voting rights are restored.

The following tables summarize the financial information of the Joint Venture and reconcile the financial information to the carrying amount of the Company's interest in the Joint Venture.

Bahar Energy
Consolidated Statement of Financial Position as at
US$000's

Assets	September 30, 2013	December 31, 2012	January 1, 2012
Current Assets			
Cash and cash equivalents	2,554	9,046	3,912
Trade receivables	16,442	10,774	9,931
Other receivable	140	185	6
Advances for operating activities	1,266	402	-
Prepaid expenses and deposits	-	-	609
Inventories	5,383	4,772	6,790
	25,785	25,179	21,248
Non-Current Assets			
Restricted cash [1]	13,735	-	-
Advances for capital equipment	1,045	1,158	8,257
Property and equipment	124,797	73,711	13,537
	165,362	100,048	43,042
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	34,380	32,208	10,117
Related party payable [1]	13,735	-	-
Short-term borrowing	-	-	3,054
Payables to related parties	2,341	2,706	1,836
	50,456	34,914	15,007
Net Assets	114,906	65,134	28,035
Company's share of net assets (33.33%)	38,298	21,709	9,344
Timing differences in Joint Venture funding	292	(199)	(7,780)
Carrying amount of Investment in Joint Venture	38,590	21,510	1,564

[1] Funds held for related party and not available for operations at September 30, 2013.

Bahar Energy
Condensed Consolidated Statement of Income (Loss)
US$000's except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Petroleum and natural gas	23,483	17,447	59,823	48,011
Transportation and storage fees	1,188	1,224	3,594	4,110
	24,671	18,671	63,417	52,121
Expenses				
Operating & administrative	18,314	12,313	58,773	56,685
Depreciation and amortization	1,623	840	2,811	1,575
	19,937	13,153	61,584	58,260
Earnings(Loss) from operating activities	4,734	5,518	1,833	(6,139)
Net Earnings(Loss)	4,734	5,518	1,833	(6,139)
Company's share of income(loss) of equity accounted investee	1,578	1,839	611	(2,046)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(US$000's)	September 30, 2013	December 31, 2012	January 1, 2012
Trade accounts payable	71	278	436
Accrued liabilities	2,162	1,955	447
	2,233	2,233	883

10. CONVERTIBLE DEBENTURES

On May 30, 2012 the Company issued CAD$23.7 million of convertible unsecured subordinated debentures (the "**Debentures**") for equivalent proceeds of USD$22.9 million. The Debentures pay a 9.0% annual rate of interest from the date of issue with interest payable semi-annually in arrears on May 31 and November 30 of each year starting on November 30, 2012 and will mature and be repayable on May 31, 2017 (the "**Maturity Date**"). Each CAD$1,000 Debenture principal amount can be converted, at the option of the holder, at any time prior to the close of business on the earlier of the business day immediately preceding the Maturity Date and, if applicable, the last business day immediately preceding the date fixed for redemption, into approximately 117 common shares of the Company. The redemption ratio results from a conversion price (the "**Conversion Price**") of CAD$8.55 per common share of the Company.

The Debentures cannot be redeemed by the Company prior to May 31, 2015. On or after June 1, 2015 and prior to the Maturity Date, the Debentures can be redeemed by the Company, in whole or in part, from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Company's sole option provided that the common share current market price on the date on which notice of redemption is given is not less than 125% of the Conversion Price (CAD$8.55) or CAD$10.69 per common share of the Company.

The Company has the option to satisfy its obligations to repay the principal amount of the Debentures upon redemption or at maturity by issuing and delivering that number of freely tradable common shares obtained by dividing the principal amount of the Debentures by 95% of the common share current market price on the date fixed for redemption or maturity, as the case may be.

The following table summarizes the liability and derivative liability components of the convertible debentures:

	Financial Statement Components			
(US$000's)	Liability	Derivative Liability [1]	Carrying Value	Principal Amount
Issuance of convertible debenture [1]	15,804	5,924	21,728	22,925
Accretion	562	-	562	-
Change in fair value of derivative	-	(2,646)	(2,646)	-
Foreign exchange (gain)loss	645	253	898	922
Balance December 31, 2012	**17,011**	**3,531**	**20,542**	**23,847**
Accretion	791	-	791	-
Change in fair value of derivative	-	(2,004)	(2,004)	-
Foreign exchange (gain)loss	(556)	(138)	(694)	(779)
Balance September 30, 2013	**17,246**	**1,389**	**18,635**	**23,068**

[1] On May 30, 2012 the Company issued CAD$23.725 million convertible debentures, equivalent to approximately USD$22.9 million as described above. The balance of the liability and derivative liability are net of transaction costs of approximately USD$1.6 million; USD$1.2 million was allocated to the liability and USD$0.4 million related to the derivative liability was expensed.

The liability portion of the Debentures is measured at amortized cost and accreted up to the principal balance at maturity using an effective interest rate of 19.4 percent. The accretion and the interest paid are expensed as interest expense in the consolidated statement of net loss. The derivative financial liability is measured at fair value through profit or loss, with adjustments recorded in "changes in fair value of derivative liability".

The fair value of the derivative financial liability is determined using the Binomial valuation model with the following assumptions:

	September 30, 2013	December 31, 2012
Market price per common share – CAD$	3.10	4.02
Conversion price per common share – CAD$	8.55	8.55
Risk-free interest rate range	1.35%	1.35%
Expected life - years	3.67	4.48
Expected volatility	58.00%	59.00%
Shares issuable at conversion	2,725,825	2,725,825

11. SHAREHOLDERS' EQUITY

Authorized Share Capital

Authorized share capital of the Company consists of 49,900,000 common shares and 100,000 preferred shares, each at US $.001 par value.

Common Shares

Each common share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company.

Preferred Shares

The Board may issue Preferred Shares at any time and from time to time in one or more series. The Board has the authority to issue Preferred Shares in series and determine the price, number, designation, rights, privileges, restrictions and conditions, including dividend rights, conversion rights, and rights with respect to the distribution of assets in the event of the dissolution or winding up of the Corporation and preferential rights, of each series without further vote or action by shareholders.

There were no preferred shares issued and outstanding at September 30, 2013 and December 31, 2012.

Common shares continuity schedule:

Outstanding common shares *(US$000's, except for share numbers)*	Number of Common Shares	Amount
As at December 31, 2012	15,551,387	61,535
Shares issued pursuant private & public placement	2,821,800	8,977
Shares issued in satisfaction of employee severance	126,371	385
Shares award	15,000	52
Amortization of restricted share awards	-	48
Repurchase of common shares	(19,611)	(92)
Shares issue costs	-	(316)
As at September 30, 2013	18,494,947	70,589

Reconciliation of cumulative issued and outstanding shares

	September 30, 2013	December 31, 2012	January 1, 2012
Issued	18,547,498	15,584,327	14,874,827
Shares acquired by Company	(63,584)	(43,973)	(23,947)
Shares issued from treasury	11,033	11,033	-
Total Outstanding	18,494,947	15,551,387	14,850,880

Per Share Information

Per share loss				
(US$000's, except for per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average number of common shares outstanding	18,423,486	15,402,575	16,303,391	15,402,775
Net gain(loss)	(58)	(482)	(3,344)	(10,141)
Basic and diluted gain(loss) per share	($0.00)	($0.03)	($0.21)	($0.66)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options and convertible debentures is based on quoted market prices for the periods that the equity instruments were outstanding. For the nine months ended September 30, 2013, the 1,105,000 options (September 30, 2012 –1,364,750 options) and 2,725,825 (September 30, 2012 – 2,725,825) shares issuable for conversion of debentures were excluded from calculating dilutive earnings per share as they were anti-dilutive.

Private Placement

On June 25, 2013 the Company completed a non-brokered private placement for gross proceeds of CAD$6.8 million or U.S dollar equivalent of $6.5 million. Pursuant to the non-brokered private placement, the Company issued an aggregate of 2,000,000 common shares at a price of CAD$3.40 per common share.

Public Share Offering

On July 9, 2013 the Company completed a brokered public offering of common shares for gross proceeds of CAD$2.8 million or U.S dollar equivalent of $2.65 million. Pursuant to the brokered public offering, the Company issued 821,800 common shares at a price of CAD$3.40 per common share. The brokered public offering issue costs included a 5% agent fees or cash commission calculated over the gross proceeds and $316 thousand for legal and administrative expenses.

Common shares issued in satisfaction of employee severance payments

On June 30, 2013 the Company issued an aggregate of 126,371 common shares to a certain former executive and other non-executive employees of the Company in satisfaction of net severance payments in the aggregate amount of $385 thousand (CAD$404 thousand), owed to such individuals. The deemed price per common share issued pursuant to these transactions was CAD$3.20, being the closing price of the common shares on the TSX Venture Exchange on June 28, 2013. See also *Note 12 – Share Based Payments.*

Share Awards

On May 17, 2013 the Company granted 15,000 common shares to an officer of the Company. The shares were valued at the closing price on the TSXV at May 17, 2013, that being CAD$3.60. See also *Note 12 – Share Based Payments.*

Acquisition of common shares

In February 2013 the Company acquired 15,509 common shares at fair market value of CAD$5.00 per share (February 2012 – 20,026 at fair market value of CAD$6.00) from certain employees as a result of share grants vesting from the February 2, 2010 Long Term Incentive Plan ("**LTIP**"). The LTIP provides the opportunity to employees to pay cash or sell to the Company the number of shares equal to their statutory withholding tax due at vesting date in order to reimburse the Company for remitting the employees' withholding tax obligation to the US Internal Revenue Service.

(Unaudited) All tabular amounts are expressed in US$000's unless otherwise stated except for share and per share amounts

As a provision of the original 2010 LTIP, the Company is authorized to withhold from participants any amounts due in cash or shares for any applicable taxes payable at the minimum statutory rate in respect of the share grant awards. The tax withholding obligation of the participant in respect of the vesting share grants can be satisfied through the sale to the Company of such number of shares with a fair market value at vesting date equal to the tax withholding obligation.

Furthermore, the Company acquired 4,102 shares in May 2013 as the number of shares equivalent to the statutory withholding tax resulting from shares awarded to an officer of the company.

All acquired shares have been cancelled therefore the Company holds no shares in treasury as at September 30, 2013 (December 31, 2012 – 8,993).

12. SHARE BASED PAYMENTS

The share-based payments recorded by the Company are associated with share options, share awards and shareholder settled transactions. Share-based payment expenses for the three and nine months ended September 30, 2013 were $40 and $611 thousand, respectively, (September 30, 2012 - $202 thousand and $1.1 million, respectively).

Share Options

The Company has a stock option plan that governs the granting of options to employees, officers and directors. All options issued by the Company permit the holder to purchase a specific number of common shares of the Company at the stated exercise price. The Company has not issued stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of common shares. As a provision of the Company's Stock Option Plan, the optionee may make the following election when exercising options at the discretion of the Compensation Committee:

> *When an optionee incurs a tax liability in connection with an option which is subject to tax withholding under applicable tax laws and the optionee is obligated to pay the Company the required withholding amount due, the optionee may satisfy the tax withholding obligation in two methods other than payment in cash; (i) by surrendering to the Company common shares that have been owned by the optionee for more than six months on the date of surrender with a market value equal to the withholding tax obligation or (ii) by electing to have the Company withhold from the common shares to be issued upon exercise of the options the number of common shares having a market value equal to the tax amount required to be withheld.*

As at September 30, 2013, the fair value of share options granted has been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate range	0.7% - 2%
Expected life	4.0 years
Expected volatility range	40% - 50%
Expected dividend	-
Forfeiture	4%
Weighted average fair value	$2.49

(Unaudited) All tabular amounts are expressed in US$000's unless otherwise stated except for share and per share amounts

Continuity of Stock Options

	September 30, 2013		December 31, 2012	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	1,291,000	7.83	1,392,250	7.17
Granted	-	-	230,000	10.57
Forfeited	(186,000)	7.84	(181,250)	7.33
Exercised	-	-	(150,000)	6.50
Outstanding, end of period	1,105,000	7.83	1,291,000	7.83
Exercisable, end of period	1,007,500	7.85	933,250	8.08

The exercise prices of the share options ranges from CAD$6.00 to CAD$14.00 per common share with all options expiring on various dates between years 2016 and 2021. With the exception of the June 2012 150,000 share options award vesting over a 12 month period, the share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date. The 1,007,500 exercisable options as at September 30, 2013 have remaining contractual lives ranging from 3.3 to 7.6 years.

Share options expenses for the three and nine months ended September 30, 2013 were $25 thousand and $75 thousand, respectively, (September 30, 2012 - $9 thousand and $504 thousand, respectively). The share options expense is offset to the Company's share-based payment reserve.

Share Awards

On May 17, 2013 the Company completed a grant of common shares and issued 15,000 common shares to an officer of the Company. The shares were valued at the closing price on the TSXV at May 17, 2013, that being CAD$3.60. For the three and nine months ended September 30, 2013, the Company recorded share-based payments expense related to this award of $nil and $52 thousand, respectively, (September 30, 2012 - $15 thousand and $84 thousand, respectively). The share-based payment expense is offset to share capital of the Company.

Common shares issued in satisfaction of employee severance payments

On June 30, 2013 the Company issued an aggregate of 126,371 common shares in satisfaction of net severance payments. The deemed price per common share issued was CAD$3.20, being the closing price of the common shares on the TSX Venture Exchange on June 28, 2013. For the three and nine months ended September 30, 2013, the Company recorded share-based payments expense related to this transaction of $nil and $385 thousand (September 30, 2012 - $nil). This share-based payment expense is offset to share capital of the Company.

Restricted Share Awards

On February 1, 2012 a 40,000 restricted share grant was awarded and shares issued by the Company to a new officer. The shares vest 25% at grant date and 25% on the anniversary date thereafter in 2013, 2014 and 2015. The shares were valued at CAD$6.00, the closing price of the Company's share on January 31, 2012, with the 25% vested on grant date included in the Company's share-based payments expense for the quarter. The remaining value of the unvested restricted share grant is amortized over the individual vesting periods.

For the three and nine months ended September 30, 2013, the Company recorded share-based payments expense related to past and current share grants of $15 thousand and $48 thousand, respectively, (September 30, 2012 - $28 thousand and $142 thousand, respectively). Expenses associated with restricted share awards are recorded with an offset to share capital of the Company.

Shareholder Settled Transactions

Under IFRS, when a shareholder transfers its own shares in a manner that benefits the Company, the Company must give recognition for the value of that transfer over the period in which the benefits are received. For the three and nine months ended September 30, 2013, the Company recorded $nil and $50 thousand, respectively, (September 30, 2012 - $150 thousand and $400 thousand, respectively) in share-based expenses for such transactions. The shareholder settled transaction expense is offset to the Company's share-based payment reserve.

Restricted Cash Bonus Program

In June 2012 the Company established a Restricted Cash Bonus Program consisting of two cash settled incentives awarded in bonus units. The first incentive is the Full Value Based Cash Bonus ("**FVBCB**") with the cash settlement value of a bonus unit equal to the current market price of a common share of the Company on specific vesting dates. The second incentive is the Appreciation Based Cash Bonus ("**ABCB**") which is settled in cash when an awardee makes a call on vested bonus units with the value of the award calculated as the difference between the current market price of a common share of the Company at call date and the original grant price per bonus unit. The program does not grant any entitlement to common shares or other equity interest in the Company.

The FVBCB incentive awards vest in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The fair value of FVBCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the second and third year of the award. The estimated FVBCB liability is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated FVBCB liability at September 30, 2013 was $0.4 million (December 31, 2012 - $0.3 million).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at September 30, 2013 was $0.2 million (December 31, 2012 - $0.3 million).

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Grant Date	FVBCB Units	ABCB Units	ABCB Units: Grant Price $CAD	ABCB Units: Exercisable	ABCB Units: Expiration Date	ABCB Units: Remaining Contractual Life - Years
June 4, 2012	83,334	145,000	4.80	72,500	June 4, 2017	3.7
Sept. 4, 2012	6,666	10,000	5.65	5,000	Sept. 4, 2017	3.9
Oct. 5, 2012	13,333	30,000	5.63	15,000	Oct. 5, 2017	4.0
Dec. 1, 2012	2,400	3,600	4.80	1,800	Dec. 1, 2017	4.2
Dec. 24, 2012	150,000	180,000	3.50	45,000	Dec. 24, 2017	4.2
	255,733	368,600		139,300		

For the three and nine months ended September 30, 2013, the Company recorded restricted cash bonus expense of $16 thousand and $186 thousand, respectively (September 30, 2012 - $241 thousand and $389 thousand, respectively).

Share-based payments reserve

(US$000's)	Amount
Balance January 1, 2012	3,830
Stock options share-based payments	839
Share-based payments, benefits from shareholders	550
Share-based settlement provision	(125)
Exercised	(362)
Forfeitures	(395)
Balance December 31, 2012	4,337
Stock options share-based payments	167
Share-based payments, benefits from shareholders	50
Forfeitures	(92)
Balance September 30, 2013	4,462

13. OTHER INCOME, DIVIDENDS, INTEREST INCOME AND INTEREST EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(US$000's)	2013	2012	2013	2012
Income other	(4)	-	(4)	-
Dividend income	(5)	-	(16)	-
Interest income	-	(16)	(12)	(48)
Interest expense – convertible debentures	788	847	2,349	1,133
	779	831	2,317	1,085

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14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items related to operating activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(US$000's)	2013	2012	2013	2012
Receivables from related parties	1,170	(1,776)	2,702	(2,866)
Other receivable	215	(30)	177	(63)
Prepaid expenses and deposits	108	38	74	16
Accounts payable and accrued liabilities	(306)	57	(505)	1,238
Provisions	-	-	-	(1,000)
	1,187	(1,711)	2,448	(2,675)

Changes in non-cash working capital items related to financing activities:

	Three Months Ended September 30,		Nine Months Ended June 30,	
(US$000's)	2013	2012	2013	2012
Accounts payable and accrued liabilities	(223)	(372)	-	-
	(223)	(372)	-	-

15. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of September 30, 2013:

(US$000's)	**2013**	**2014**	**Thereafter**
Operating leases (1)	38	78	78
Debentures – interest payments (2)	1,038	2,076	5,190
	1,076	2,154	5,268

(1) The Company has extended the lease of office space for its corporate headquarters in the United States through December 2015.
(2) The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the September 30, 2013 exchange rate of 1.0285 USD/CAD.

The commitments of the Company include a loan commitment to Bahar Energy under the terms of the CTA for up to $52.5 million for the funding of deficit cash flows associated with the 2013 Bahar Annual Work Program and Budget ("WP&B"), which is subject to change.

As part of the mid-year budget review, the 2013 Bahar Annual Work Program and Budget were revised downward for lower capital expenditures. Due to delays in the scheduled drilling and startup of the recording of the 3D seismic survey in the Gum Deniz field, the estimated capital program for 2013 has been reduced even further while at the same time current production rates and realized oil prices are higher than estimated. The impact of lower capital spending offset by higher than expected revenues has reduced the Company's estimate of deficit cash flows from the Bahar project for 2013 and its expected loan commitment to Bahar Energy from $52.5 million to approximately $25 million.

The Company's commitments to fund the Bahar Project are based on the approved annual WP&B prepared by BEOC. Greenfields' management, through their participation at the project Steering Committee, Management Committee and Bahar Energy board of directors, provides significant input and technical guidance to the proposed annual work plan. Proposed budgets are reviewed and approved by the Management Committee (comprised of representatives from Bahar Energy and SOCAR), Bahar Energy board of directors and Greenfields board of directors. Budget approval by Bahar Energy must be unanimous. Failing unanimity on a work program and budget, the proposal capable of satisfying the minimum work and production obligations under the ERDPSA for the calendar year in question that receives the highest percentage vote is deemed approved. Greenfields' Chief Executive Officer currently serves as the Bahar Energy representative on the Management Committee for BEOC, which has the authority under the Joint Operating Agreement to exercise day to day supervision and direction of all matters pertaining to the Joint Operations.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks in respect of certain financial instruments held:

a) Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from subsidiaries and affiliates for services performed under certain administrative services agreements and from advances made under certain joint venture agreements.

The Company's current accounts receivable balances mainly consist of receivables from related parties as result of the funding of administrative expenses and costs in connection with Bahar Energy operations under the ERDPSA, and management fees for administrative and technical support provided to an entity the Company has an equity interest. The Company historically has not experienced any collection issues with its accounts receivable and all of the balances due are considered by management to be collectable at September 30, 2013. See *Note 7 – Related Party Receivables*.

Cash and cash equivalents consist of bank deposits and short term money market investments held in major United States banks. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit rating and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper. Cash held in bank accounts are exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions.

The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

Credit risk *(US$000's)*	**September 30, 2013**	**December 31, 2012**	**January 1, 2012**
Cash and cash equivalents	3,986	12,404	23,985
Short term investments	-	1,693	3,488
Receivables from related parties	1,699	4,401	1,838
Other receivable	28	238	59
	5,713	18,736	29,370

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual conditions without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation.

The Company prepares annual and interim period capital expenditure budgets, which are regularly monitored and updated as considered necessary to provide current cash flow estimates. The Company also utilizes authorizations for expenditures on projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company may raise debt and capital through the issuance of shares.

The Company's financial liabilities as at September 30, 2013 and December 31, 2012 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest. Currently, the Company does not have any debt other than convertible debentures.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

Liquidity Risk	September 30, 2013				December 31, 2012
(US$000's)	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities	984	563	-	1,547	2,054
Debentures-interest payable [(1)]	2,076	6,228	-	8,304	9,769
Debentures	-	-	23,068	23,068	23,847
	3,060	6,791	23,068	32,919	35,670

(1) The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments through maturity of the Debentures has been calculated at the September 30, 2013 exchange rate of 1.0285 USD/CAD. Interest payable with maturity within 1 year includes the accrual of $686 thousand towards the next coupon interest payment due by 11/30/2013.

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars.

At September 30, 2013 and December 31, 2012 the Company had no forward exchange contracts in place.

d) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are affected by the international economy that governs the level of supply and demand.

At September 30, 2013 and December 31, 2012, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company mitigates its exposure to interest rate changes by holding fixed rate debt.

At September 30, 2013 the sensitivity in net earnings for each one percent change in interest rates is not significant.

Fair value of financial instruments

The fair value of financial instruments as at September 30, 2013 and December 31, 2012 are disclosed below by financial instrument category as follows:

		September 30, 2013		December 31, 2012		January 1, 2012	
(US$000's)	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at FVTPL							
Cash and cash equivalents	1	3,986	3,986	12,404	12,404	23,985	23,985
Loans and receivables							
Receivables from related party (a)	-	1,699	1,699	4,401	4,401	1,838	1,838
Other receivables	-	28	28	238	238	59	59
Available for sale assets							
Short term investments	2	-	-	1,693	1,693	3,488	3,488
Other financial liabilities							
Accounts payable and accrued liabilities	-	1,670	1,670	1,635	1,635	883	883
Convertible Debentures	-	18,635	18,635	20,542	20,542	-	-
Liabilities at FVTPL							
Share based bonus	2	563	563	598	598	-	-
Derivative liability	2	1,389	1,389	3,531	3,531	-	-

a. Balances consist of receivables from Bahar Energy resulting from amounts invoiced on "Affiliate Service Orders" **(**"**ASO**"), Personnel Secondment Agreements and other direct services provided to Bahar Energy Operating Company Ltd. **(**"**BEOC**"**)**.

<u>Fair Value Hierarchy</u>
Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – Fair value measurement is based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.
Level 3 – Fair value measurement using inputs for the asset or liability that are not based on observable market data.

17. CAPITAL STRUCTURE AND MANAGEMENT

The Company considers its capital structure to include common share capital and working capital (a measurement defined as current assets less current liabilities, with current liabilities being as per the number on the face of the consolidated statement of financial position excluding warrants). In order to maintain or adjust the capital structure, the Company may from time to time issue common shares or other securities, sell assets, issue debt or adjust its operating or capital spending to manage current and projected working capital levels.

Composition of the Company's capital structure *(US$000's)*	September 30, 2013	December 31, 2012
Working Capital	3,525	16,622
Convertible debt and shareholders' equity	42,244	38,327
Ratios of working capital to convertible debt and shareholders' equity (1)	8%	43%

(1) Convertible debt is combined with shareholder's equity due to the Company's right to settle debt by issuing shares.

18. SUBSEQUENT EVENTS

Financing

On November 25, 2013 the Company secured funding through a $25 million loan with an arm's length third party. The funds available under the loan are primarily to finance the Company's ongoing development operations in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field. Pursuant to the terms of the loan agreement between the Company, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors, and the lender, the Company is entitled to draw up to an aggregate of $25 million in tranches based upon the achievement of certain milestone events. The amount drawn under the loan bears an interest rate of between 15% and 20% with a maturity date of December 31, 2015. The loan is subject to a 2.5% structuring fee.

In consideration of the loan, the Company has agreed to issue to the lender common shares of the Company as bonus shares. These bonus shares will be subject to resale restrictions expiring four months from the date of issuance. Based on the funds drawn by the Company upon closing of the loan, the Company has issued 524,476 bonus shares to the lender.

Share Options Awards

Subsequent to September 30, 2013 the Company granted share options to acquire up to 720,000 common shares 459,000 of which were granted to directors and officers of the Company. The options have a five years term and are exercisable at prices ranging from CAD$2.90 to CAD$3.20 per Common Share.