

**GREENFIELDS PETROLEUM  
CORPORATION**



**Condensed Consolidated Financial Statements**

*(Unaudited)*

**September 30, 2012**

**GREENFIELDS PETROLEUM CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

Unaudited, US\$000's

	Notes	As at September 30, 2012	As at December 31, 2011
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	22,594	25,289
Short term investments	4	1,709	3,488
Trade receivables	5	4,213	3,310
Receivables from related parties	6	4,704	1,838
Other receivable		126	61
Advances for operating services		256	-
Prepaid expenses and deposits		120	310
Inventories	7	839	2,263
		34,561	36,559
<b>Non-Current Assets</b>			
Investments		86	228
Note receivable from related party	6	33,600	8,965
Advances for capital equipment	8	1,599	10,792
Property and equipment	8	31,518	4,583
		101,364	61,127
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	9	9,270	4,255
Short term borrowing	10	-	1,018
Provisions	11	-	1,000
Payables to related parties	6	2,085	612
Warrants	13	-	976
		11,355	7,861
<b>Non-current Liabilities</b>			
Notes payable to related parties	6	33,195	16,745
Convertible Debentures	12	23,488	-
<b>Shareholders' Equity</b>			
Common shares	14	16	15
Paid in capital		61,373	56,705
Share-based payments reserve	15	4,246	3,830
Deficit		(32,324)	(23,983)
Investments revaluation reserve		15	(46)
<b>Total Shareholders' Equity</b>		<b>33,326</b>	<b>36,521</b>
<i>(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 20)</i>		101,364	61,127

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,	
	2012	2011	2012	2011
<b>Revenues</b>				
Petroleum and natural gas	5,815	5,172	16,002	15,953
Transportation and storage fees	408	582	1,370	1,704
Management service fees	733	568	1,907	3,025
	6,956	6,322	19,279	20,682
<b>Expenses</b>				
Operating	2,930	3,858	12,877	12,196
Transportation	78	136	223	433
Exploration and evaluation	233	214	2,046	570
Pre-licensing costs	76	644	596	1,220
Administrative	3,701	3,781	10,744	10,818
Depreciation and amortization (Note 8)	305	35	578	73
	7,323	8,668	27,064	25,310
Loss from operating activities	(367)	(2,346)	(7,785)	(4,628)
Dividends, interest and other income (Note 16)	803	(71)	1,103	(179)
Loss on investments	-	108	-	108
Impairment of receivables recovery (Note 6)	(1,087)	-	(1,087)	-
Provisions (Note 11)	-	-	(125)	-
Foreign exchange loss	674	-	815	-
Change in fair value of derivative liability	(275)	-	191	-
Change in fair value of warrants (Note 13)	-	(1,170)	(341)	(1,163)
Loss before income taxes	(482)	(1,213)	(8,341)	(3,394)
Deferred income tax recovery (Note 19)	-	(752)	-	(1,399)
<b>Net Loss</b>	<b>(482)</b>	<b>(461)</b>	<b>(8,341)</b>	<b>(1,995)</b>
<b>Per share</b>				
Net loss per share, basic and diluted (Note 14)	(\$0.03)	(\$0.03)	(\$0.54)	(\$0.13)

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

Unaudited, US\$000's

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Loss	(482)	(461)	(8,341)	(1,995)
Gain arising from revaluation of available for sale financial assets during the period	15	(87)	61	(46)
Income tax expense	-	30	-	16
	15	(57)	61	(30)
<b>Total Comprehensive loss</b>	<b>(467)</b>	<b>(518)</b>	<b>(8,280)</b>	<b>(2,025)</b>

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

**GREENFIELDS PETROLEUM CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*Unaudited, US\$000's*

	Nine Months Ended September 30,	
	2012	2011
<b>Common shares</b> <i>(Note 14)</i>		
Balance, beginning of period	15	15
Warrants/Options exercise	1	-
Balance, end of period	16	15
<b>Paid in capital</b>		
Balance, beginning of period	56,705	56,526
Issued pursuant to private placements	-	-
Repurchase of common shares	(138)	(208)
Share issue costs	-	(54)
Exercise of options	1,343	-
Warrant exercise and liability reclassification	3,237	27
Share-based payments	226	49
Excess tax benefit - share grants	-	337
Forfeiture of share options	-	65
Balance, end of period	61,373	56,742
<b>Share-based payments reserve</b> <i>(Note 15)</i>		
Balance, beginning of period	3,830	1,361
Share-based payments	904	1,331
Share options exercised and other adjustments	(488)	(65)
Balance, end of period	4,246	2,627
<b>Deficit</b>		
Balance, beginning of period	(23,983)	(7,445)
Net loss	(8,341)	(1,995)
Balance, end of period	(32,324)	(9,440)
<b>Investment revaluation reserve</b>		
Balance, beginning of period	(46)	-
Unrealized gain on short term investments	61	(30)
Balance, end of period	15	(30)
<b>Total Shareholders' Equity</b>	<b>33,326</b>	<b>49,915</b>

*See accompanying Notes to Condensed Consolidated Financial Statements*

**GREENFIELDS PETROLEUM CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited, US\$000's

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Operating Activities</b>				
Loss before income taxes	(482)	(1,213)	(8,341)	(3,394)
<u>Items not affecting cash:</u>				
Share-based compensation	202	464	1,131	1,380
Depreciation and amortization	305	35	578	73
Dividends and interest from short term investments	(16)	(70)	(48)	(195)
Interest income note receivable related party	(395)	(108)	(931)	(151)
Interest expense long term debt	846	-	1,132	-
Interest expense note payable related party	367	110	949	173
Unrealized FX loss	668	-	793	-
Provision for Claims	(125)	-	(125)	-
Loss from derivative liability	(275)	-	191	-
Change in fair value of warrants (Note 13)	-	(1,170)	(341)	(1,163)
Cash used in operating activities before changes in non-cash working capital	1,095	(1,952)	(5,012)	(3,277)
Change in non-cash operating working capital (Note 18)	(905)	(573)	(2,421)	(4,931)
<b>Cash From (Used in) Operating Activities</b>	<b>190</b>	<b>(2,525)</b>	<b>(7,433)</b>	<b>(8,208)</b>
<b>Financing Activities</b>				
Proceeds from issue of common shares	-	-	3,581	15
Share issue costs	-	(5)	-	(373)
Convertible debenture proceeds	-	-	22,925	-
Convertible debenture issue costs	5	-	(1,197)	-
Distributions paid to unitholders	-	-	-	-
Repurchase of common shares	(18)	-	(138)	(208)
Proceeds from related party notes (Note 6)	1,934	-	15,501	7,895
<b>Cash From (Used in) Financing Activities</b>	<b>1,921</b>	<b>(5)</b>	<b>40,672</b>	<b>7,329</b>
<b>Investing Activities</b>				
Property and equipment	(6,497)	(4,359)	(8,010)	(5,308)
Advances for capital equipment	(1,095)	-	(6,672)	-
Notes receivable from related parties (Note 6)	(2,834)	-	(23,705)	(8,700)
Investments	801	5,114	1,865	(4,689)
Cash dividends received	-	65	142	146
Cash interest received	32	29	68	68
<b>Cash Used in (From) Investing Activities</b>	<b>(9,593)</b>	<b>849</b>	<b>(36,312)</b>	<b>(18,483)</b>
Effect of exchange rates on changes on cash	159	-	378	-
<b>Decrease in Cash and Cash Equivalents</b>	<b>(7,323)</b>	<b>(1,681)</b>	<b>(2,695)</b>	<b>(19,362)</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>29,917</b>	<b>30,295</b>	<b>25,289</b>	<b>47,977</b>
<b>Cash and Cash Equivalents, end of period (Note 3)</b>	<b>22,594</b>	<b>28,615</b>	<b>22,594</b>	<b>28,615</b>

See accompanying Notes to Condensed Consolidated Financial Statements

## GREENFIELDS PETROLEUM CORPORATION

### Notes to the Condensed Consolidated Financial Statements

As at September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011

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

---

#### 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 its registered office is located at Walker House, 87 Mary Street, 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.

#### 2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2011 prepared in accordance with *International Financial Reporting Standards* (“**IFRS**”) as issued by the *International Accounting Standards Board* (“**IASB**”). The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied by the Company’s first annual IFRS financial statements for the year ended December 31, 2011.

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**”) as issued by the IASB.

The Company is producing, developing and exploring oil and gas properties. The recovery of amounts capitalized for oil and gas properties and assets under construction in the statements of financial position are dependent upon its ability to increase production and complete the development of properties, including related financing requirements. To date, the Company’s expenses have exceeded its revenues. These 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.

The Company’s on-going activities are dependent upon its ability to manage the timing of the planned capital program and to obtain sufficient financing to fund its planned future operations and future development costs. Although management is confident that necessary financing will be obtained, 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 a going concern. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. Such adjustments could be material.

The condensed consolidated financial statements were approved by the Audit Committee of the Company’s Board of Directors on November 26, 2012.

### 3. 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. At September 30, 2012 the Company had a total of \$13.9 million (December 31, 2011 - \$ 20.8 million) invested in cash equivalents earning a money market rate of interest.

Cash and cash equivalents also include the Company's proportionate share of cash in Bahar Energy Limited ("**Bahar Energy**") of \$2.9 million at September 30, 2012 (December 31, 2011 - \$ 1.3 million).

### 4. SHORT TERM INVESTMENTS

<i>(US\$000's)</i>	September 30, 2012	December 31, 2011
Corporate bonds at amortized cost	1,694	3,534
Fair market value adjustment	15	(46)
	1,709	3,488

The Company periodically invests in investment grade securities. At September 30, 2012 the Company had a total of \$1.7 million (December 31, 2011 - \$ 3.5 million) invested in BBB grade or better corporate bonds with maturities ranging from three to nineteen months. For the three and nine months ended September 30, 2012, the Company earned interest income from money market and bonds of \$16 thousand and \$48 thousand, respectively, (September 30, 2011 – \$26 thousand and \$85 thousand, respectively).

### 5. TRADE RECEIVABLES

<i>(US\$000's)</i>	September 30, 2012	December 31, 2011
Petroleum	3,196	1,923
Natural gas	744	529
Transportation and storage fees	273	858
	4,213	3,310

Petroleum and natural gas sales have an average collection cycle of 60 days from product lifting dates.

### 6. RELATED PARTY TRANSACTIONS

#### **Current**

#### **Receivables from related parties**

At September 30, 2012 the Company had a balance of \$4.7 million (December 31, 2011 - \$1.8 million) in accounts receivable from Bahar Energy Operating Company Ltd. ("**BEOC**"). The receivable balance at December 31, 2011 was net of an impairment provision of \$1.1 million related to pre-effective date costs billed to the Bahar project. As result of the Company collecting the \$1.1 million in October 2012, a recovery of this prior receivable impairment was recorded in September 2012. Remaining balances due are attributable to work performed under "Affiliate Service Orders" ("**ASO**") as approved by BEOC.

For the three and nine months ended September 30, 2012, the Company recorded \$0.7 million and \$1.8 million, respectively, (September 30, 2011 – \$0.5 million and \$2.8 million, respectively) in management service fees for management, administrative and technical services performed at cost for BEOC under

ASO's noted above.

### **Payables to related parties**

At September 30, 2012 the Company had a \$2.1 million (December 31, 2011 - \$0.6 million) payable balance to certain shareholders of Bahar Energy, which included the Company, associated with amounts invoiced on ASO services and other direct invoicing for services provided by the Company to Bahar Energy and its subsidiary BEOC.

Under the terms of the Exploration, Rehabilitation, Development and Production Sharing Agreement (“**ERDPSA**”) the affiliates of Bahar Energy, including the Company, may bill for management, administrative, support and technical services provided to BEOC under ASO's. The billing rates are to be at the partner's cost and not to exceed commercial rates that would typically be charged by a third party. For the three and nine months ended September 30, 2012, the Company recorded \$1.1 million and \$1.5 million, respectively, associated with its proportionate share of costs billed by affiliates of Bahar Energy to BEOC (September 30, 2011 - \$0.1 million and \$1.1 million, respectively), the majority of which were for services performed by the Company.

### **Non-current**

#### **Note receivable from related party**

At September 30, 2012 the Company has a note and interest receivable balance of \$33.6 million (December 31, 2011 - \$ 9.0 million) related to funding under loans made to Bahar Energy under the “Common Terms Agreement” (“**CTA**”). Interest accumulates at the three-month average of annualized London Interbank Offer Rates (“**LIBOR**”) quoted on a calendar quarter basis plus 4.5%. See below “Notes payable to related parties”. For the three and nine months ended September 30, 2012, the Company recorded interest income for \$0.4 million and \$0.9 million, respectively, (September 30, 2011 - \$0.1 million and \$0.2 million, respectively).

#### **Notes payable to related parties**

At September 30, 2012 the Company, through its 33.33% interest in Bahar Energy, had a related party notes and interest payable balance of \$33.2 million (December 31, 2011 – \$ 16.7 million) payable to the shareholders of Bahar Energy. The notes and interest payable balance is the result of funding under the CTA between the shareholders of Bahar Energy whereby each shareholder agrees to grant a credit facility to Bahar Energy up to specific amounts during a commitment period, limited to the amounts included in the annual signed Loan Agreements, which are based on the annual work plan approved under the ERDPSA.

Bahar Energy may request a draw or advance under a Loan Agreement subject to the terms of the CTA. The proceeds from each loan that are advanced under the Loan Agreements are to be applied to funding costs associated with the approved Annual Work Program and Budget of the ERDPSA and for general corporate purposes as authorized by the shareholders of Bahar Energy. Interest accumulates at the three-month average of annualized LIBOR quoted on a calendar quarter basis plus 4.5%. Loan repayment will be funded from the 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. Because current projections of cash flows from the Bahar project to repay the loan extend beyond a twelve month period, the Company classifies both the “Notes receivable from related party” and the “Notes payable to related parties” as non-current assets and liabilities.

For the three and nine months ended September 30, 2012, the Company recorded interest expense for \$0.4 million and \$0.9 million, respectively, (September 30, 2011 - \$0.1 million and \$0.2 million, respectively).



## 7. INVENTORIES

At September 30, 2012 the Company had inventories of \$0.8 million (December 31, 2011 - \$ 2.3 million), relating to operating materials and supplies consisting of spare parts, consumables, lubricants and fuel, all attributable to the Bahar ERDPSA.

## 8. PROPERTY AND EQUIPMENT

<i>(US\$000's)</i>	Assets under Construction <sup>(1)</sup>	Oil and Gas Properties <sup>(1)</sup>	Corporate and Other	Total
<u>Fixed assets</u>				
As at December 31, 2011	3,010	1,207	551	4,768
Additions <sup>(2)</sup>	26,608	-	905	27,513
Transfers	(10,880)	8,425	2,455	-
As at September 30, 2012	18,738	9,632	3,911	32,281
<u>Accumulated depreciation and depletion</u>				
As at December 31, 2011	-	72	113	185
Additions	-	392	186	578
As at September 30, 2012	-	464	299	763
<u>Net property and equipment</u>				
As at December 31, 2011	3,010	1,135	438	4,583
As at September 30, 2012	18,738	9,168	3,612	31,518

<sup>(1)</sup> "Assets under Construction" and "Oil and Gas Properties" represent the Company's proportionate share of these assets of Bahar Energy.

<sup>(2)</sup> Includes long lead equipment inventory acquired for the capital drilling and workover programs.

At September 30, 2012 the Company had a balance of \$1.6 million in non-refundable advances for capital equipment purchases associated with the operations of Bahar Energy (December 31, 2011 – \$ 10.8 million) that primarily consists of remaining balances from advances made during December 2011 and Q1 2012 for drilling and work over equipment.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<i>(US\$000's)</i>	September 30, 2012	December 31, 2011
Trade accounts payable	5,744	2,406
Accrued liabilities	3,404	1,837
Other payable	122	12
	9,270	4,255

## 10. SHORT TERM BORROWING

At September 30, 2012 the Company had no liability associated with short term borrowing (December 31, 2011 – \$1.0 million). The balance at December 31, 2011 reflects the Company's 33.33% share of a temporary bank loan arranged by BEOC to cover short-term working capital deficits which was repaid in January 2012.

## 11. PROVISIONS

At September 30, 2012 the Company has a \$nil balance in provisions (December 31, 2011 - \$1 million) for potential claims settlement. On May 18, 2012 the Company settled the claim made by a former consultant.

## 12. 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 convertible, 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 conversion price (the "**Conversion Price**") of CAD\$8.55 per common share of the Company.

The Debentures cannot be redeemable by the Company prior to May 31, 2015. On or after June 1, 2015 and prior to the Maturity Date, the Debentures can be redeemable 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.

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:

(US\$000's)	Financial Statement Components			
	Liability	Derivative Liability <sup>(1)</sup>	Carrying Value	Principal Amount
Issuance of convertible debenture <sup>(1)</sup>	15,804	5,924	21,728	22,925
Accretion	407	-	407	-
Change in fair value of derivative	-	191	191	-
Foreign exchange loss	836	325	1,161	1,193
Balance September 30, 2012	17,048	6,441	23,488	24,118

<sup>(1)</sup> 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 23.7 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, 2012
Market price per common share – CAD\$	4.75
Conversion price per common share – CAD\$	8.55
Risk-free interest rate range	1.353%
Expected life - years	4.7
Expected volatility	66.4%
Shares issuable at conversion	2,725,825

### 13. WARRANTS

<i>(US\$000's)</i>	Warrants	Amount
<b>Balance December 31, 2011</b>	519,500	976
Fair value adjustment	-	(341)
Exercised (Exercise Price: CAD\$5.00)	(519,500)	(635)
<b>Balance September 30, 2012</b>	-	-

During January and February 2012 all 519,500 warrants outstanding at December 31, 2011 were exercised. The Company raised CAD\$2,597,500 (approximately \$2,601,000) as a result of the warrants holders' exercise.

All warrants issued pursuant to the private equity placement completed in February 2010 were exercised between the original issue date and the expiration date of February 24, 2012.

*[The remainder of this page intentionally left blank]*

## 14. SHAREHOLDERS' EQUITY

Common shares continuity schedule:

<b>Outstanding common shares</b> <i>(US\$000's, except for share numbers)</i>	Number of Common Shares	Amount
<b>As at December 31, 2011</b>	14,850,880	56,720
Warrants exercised	519,500	3,238
Share-based payments	40,000	226
Repurchase of common shares	(20,026)	(120)
Exercise of share options	150,000	1,343
Shares issued from treasury	11,033	(18)
<b>As at September 30, 2012</b>	15,551,387	61,389

### Reconciliation of issued and outstanding shares

	September 30, 2012	December 31, 2011
Issued	15,584,327	14,874,827
Shares acquired by Company	(43,973)	(23,947)
Shares issued from treasury	11,033	-
<b>Total Outstanding</b>	15,551,387	14,850,880

On June 30, 2011 all 23,947 shares acquired by the Company during 2010 and 2011 were cancelled. The Company further acquired 20,026 shares in February 2012. In September 2012 the Company issued a total of 11,033 shares from shares held by the Company to cover an August 9, 2012 award of 15,000 share grants to an officer of the Company. The 11,033 shares issued the officer were net of the officer's tax obligation. The Company held a balance of 8,993 shares as at September 30, 2012. (See Note 15 – Share-based Payments)

### Per Share Information

<b>Per share loss</b> <i>(US\$000's, except for per share amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Weighted average number of common shares outstanding	15,402,575	14,848,380	15,402,775	14,850,140
Net Loss	(482)	(461)	(8,341)	(1,995)
Basic and diluted loss per share	(\$0.03)	(\$0.03)	(\$0.54)	(\$0.13)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options, convertible debentures and warrants is based on quoted market prices for the period that the equity instruments were outstanding. For the three and nine months ended September 30, 2012, the 1,364,750 options (September 30, 2011 – 1,392,250 options), nil warrants (September 30, 2011 – 522,000) and 2,725,825 shares issuable at conversion of debentures were excluded from calculating dilutive earnings per share as they were anti-dilutive.

## Acquisition of common shares

In February 2012 the Company acquired 20,026 common shares at fair market value of CAD\$6.00 per share (February 2011 – 20,641 at fair market value of CAD\$10.00) 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 reimbursement the Company for remitting the employees’ withholding tax obligation to the US Internal Revenue Service.

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.

In September 2012 the Company issued a total of 11,033 shares from shares held by the Company to cover an August 9, 2012 award to an officer of the Company. At September 30, 2012 the Company holds a balance of 8,993 shares (September 30, 2011 – nil).

The 20,641 shares acquired by the Company in February 2011 along with the 3,306 shares acquired during 2010 were cancelled June 30, 2011.

## 15. SHARE-BASED PAYMENTS

The share-based payments recorded by the Company are associated with share options, restricted share grants and shareholder settled transactions. Share-based payment expenses for the three and nine months ended September 30, 2012 were \$0.2 million and \$1.1 million, respectively (September 30, 2011 - \$0.5 million and \$1.4 million, respectively).

### Share Options

The Company’s Share Option Plan governs the granting of options to employees, officers, directors and certain full time consultants. All options issued by the Company permit the holder to purchase a specific number of common shares of the Company at a stated exercise price. The Company has issued no share options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of shares.

Continuity of share options	September 30, 2012		December 31, 2011	
	Number of options	Average exercise price (CAD\$)	Number of options	Average exercise price (CAD\$)
<b>Outstanding, beginning of period</b>	1,392,250	7.17	1,211,000	6.87
Granted	80,000	6.00	230,000	8.64
Exercised	(150,000)	6.50	-	-
Granted	150,000	13.00	-	-
Forfeited	(75,000)	8.00	-	-
Forfeited	(32,500)	6.50	(48,750)	6.50
<b>Outstanding, end of period</b>	1,364,750	7.79	1,392,250	7.17
<b>Exercisable, end of period</b>	913,250	7.76	721,750	6.98

---

**Share-based payments reserve**

<i>(US\$000's)</i>	Amount
<b>Balance December 31, 2011</b>	3,830
Share-based payments, options	705
Share-based payments, benefits from shareholders	400
Forfeitures	(201)
Exercised options	(363)
Share-based payments, shareholders' settled claims	(125)
<b>Balance September 30, 2012</b>	4,246

---

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, 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 913,250 exercisable options as at September 30, 2012 have remaining contractual lives ranging from 3.9 to 8.6 years.

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. For the 80,000 share options granted in February 2012 at an exercise price of CAD\$6.00 per common share, the share options were fair valued on the date of grant using the Black-Scholes option pricing model assuming a risk-free interest rate of 0.71%, four years expected life, expected volatility of 40% and forfeiture rate of 4% resulting in a calculated options value of \$0.1 million. The share options will vest 25% at date of grant and 25% each of the first, second and third anniversaries of the indicated grant date. The value associated with the first 25% of options vested on grant date was expensed during the period with the remaining 75% of the value amortized over each of the three vesting periods.

In June 2012 the Company completed the award of 150,000 share options at an average exercise price of CAD\$13 per common share. The constructive obligation for this award was established in January 2012 and fair valued accordingly at \$0.1 million using the Black-Scholes option pricing model assuming a risk-free interest rate of 0.71%, four years expected life and expected volatility of 40%. The share options will vest over a 12 month period, 1/12 each month. At September 30, 2012 75% of the vested portion of the award has been expensed with the remaining portion scheduled to be expensed by December 31, 2012.

---

**Share options expense**

<i>(US\$000's)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	9	444	504	1,331

---

**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, 2012, the Company recorded share-based payments expense related to past and current share grants of \$28 thousand and \$142 thousand, respectively, (2011 - \$20 thousand and \$49 thousand, respectively). Expenses associated with restricted share awards are recorded with an offset to share capital of the Company.

### **Share Awards**

On August 9, 2012 the Company completed a grant of 15,000 common shares and issued 11,033 common shares net of tax obligation to an officer of the Company. The shares were valued at the closing price on the TSXV at June 4, 2012, that being CAD\$4.80. For the three and nine months ended September 30, 2012, the Company recorded share-based payments expense related to this award of \$84 thousand (2011 - \$nil). The share-based payment expense is offset to share capital of the Company.

### **Restricted Cash Bonus Program**

On June 8, 2012 the Company awarded a total of 355,000 bonus units to employees, officers, directors and certain full time consultants under a Restricted Cash Bonus Program. This program consists of two cash settled incentives. The first incentive is the Full Value Based Cash Bonus (“**FVBCB**”) totaling 150,000 units with the cash settlement value of each 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**”) totaling 205,000 units which are settled in cash when an awardee makes a call on vested 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 CAD\$4.80 grant price. The program does not grant any entitlement to common shares or other equity interest in the Company.

On September 4, 2012 the Company awarded additional 20,000 bonus units to a new director under the Restricted Cash Bonus Program. The awards consist of 10,000 FVBCB units and 10,000 ABCB units.

The June 8, 2012 and the September 4, 2012 FVBCB incentive awards vest 1/3 each in January 1, 2013, 2014 and 2015 with cash settlement on vesting dates. The fair value of FVBCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the years 2014 and 2015. The estimated FVBCB liability at September 30, 2012 was \$0.7 million which is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is fair valued at each reporting date with adjustments recorded through profit and loss.

The ABCB incentive awards were granted at CAD\$4.80 and CAD\$5.65, the market closing price of Company shares on June 4, 2012 and September 4, 2012, respectively. For the ABCB awards, 25% vested at grant date and 25% on each of January 1, 2013, 2014 and 2015. The ABCB awards have a contractual life of five years and were fair valued at \$0.4 million using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.02%, two year expected life from its vesting date, expected volatility of 66% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the 42 months vesting period. At each reporting date the liability is fair valued with the same Black-Scholes pricing model with adjustments recorded through profit and loss.

For the three and nine months ended September 30, 2012, the Company recorded restricted cash bonus expense of \$0.2 million and \$0.4 million, respectively, (2011 - \$nil).

### **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, 2012, the Company recorded \$150 thousand and \$400 thousand, respectively, (2011 - \$nil) in share-based expenses for such transactions.

In December 2011 the Company recorded a \$1.0 million provision expense associated with a claim shareholders of the Company anticipated settling through the transfer of their own shares to the claimant. For the three and nine months ended September 30, 2012, the Company has recorded a \$125 thousand provision expense recovery to reflect the final settlement amount associated with this shareholder transaction. No treasury shares of the Company were issued as part of this settlement.

## 16. DIVIDENDS, INTEREST AND OTHER INCOME

<b>Dividends, interest and other income</b>				
<i>(US\$000's)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Dividend income	-	(44)	-	(109)
Interest income	(15)	(26)	(48)	(85)
Other income	-	(3)	-	(6)
Interest income – related party notes	(395)	(109)	(931)	(151)
Interest expense – related party notes	367	110	949	173
Interest expense – convertible debentures	846	-	1,133	-
	803	(71)	1,103	(179)

*[The remainder of this page intentionally left blank]*



## 17. SEGMENT INFORMATION

The Company's reportable and geographical segments are Azerbaijan and Corporate and Other. Other includes the Company's corporate offices and new venture business development activities outside of Azerbaijan. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

The segment information related to Azerbaijan represents the Company's proportionate 33.33% share of Bahar Energy revenues, expenses, assets and liabilities.

<b>Total assets and liabilities</b> (US\$000's)	September 30, 2012			December 31, 2011		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Current assets	8,258	26,303	34,561	7,082	29,477	36,559
Non-current assets (excluding capital assets)	-	33,686	33,686	-	9,193	9,193
Capital assets <sup>(1)</sup>	32,898	219	33,117	15,304	71	15,375
<b>Total assets</b>	<b>41,156</b>	<b>60,208</b>	<b>101,364</b>	<b>22,386</b>	<b>38,741</b>	<b>61,127</b>
Current liabilities	(8,498)	(2,857)	(11,355)	(5,002)	(2,859)	(7,861)
Non-current liabilities	(33,195)	(23,488)	(56,683)	(16,745)	-	(16,745)
<b>Total liabilities</b>	<b>(41,693)</b>	<b>(26,345)</b>	<b>(68,038)</b>	<b>(21,747)</b>	<b>(2,859)</b>	<b>(24,606)</b>

<sup>(1)</sup> Capital Assets include property and equipment and advances made for capital equipment purchases.

<b>Capital expenditures</b> (US\$000's)	Three months ended					
	September 30, 2012			September 30, 2011		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Capital Expenditures	10,762 <sup>(1)</sup>	6	10,768	4,358	3	4,361

<b>Capital expenditures</b> (US\$000's)	Nine months ended					
	September 30, 2012			September 30, 2011		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Capital Expenditures	18,121 <sup>(1)</sup>	199	18,320	5,261	47	5,308

<sup>(1)</sup> Includes expenditures for property and equipment and advances for capital equipment.

**Statements of net profit (loss) by segment**
**Three months ended**

(US\$000's)	September 30, 2012			September 30, 2011		
	Azerbaijan <sup>(1)</sup>	Corporate and Other	Total	Azerbaijan <sup>(1)</sup>	Corporate and Other	Total
<b>Revenues</b>						
Petroleum and natural gas (external)	5,815	-	5,815	5,172	-	5,172
Transportation and storage fees (external)	408	-	408	582	-	582
Management services fees	-	733	733	-	568	568
	6,223	733	6,956	5,754	568	6,322
<b>Expenses</b>						
Operating	2,930	-	2,930	3,858	-	3,858
Transportation	78	-	78	136	-	136
Exploration and evaluation	233	-	233	214	-	214
Pre-licensing costs	-	76	76	-	644	644
Administrative	890	2,811	3,701	1,056	2,725	3,781
Depreciation and amortization	280	25	305	24	11	35
	4,411	2,912	7,323	5,288	3,380	8,668
Profit (loss) from operating activities	1,812	(2,179)	(367)	466	(2,812)	(2,346)
Dividends, interest and other income	367	436	803	110	(181)	(71)
Loss on investments	-	-	-	-	108	108
Foreign exchange loss	-	674	674	-	-	-
Impairment of receivables recovery	-	(1,087)	(1,087)	-	-	-
Change in fair value of derivative liability	-	(275)	(275)	-	-	-
Change in fair value of warrants	-	-	-	-	(1,170)	(1,170)
Profit (loss) before income taxes	1,445	(1,927)	(482)	356	(1,569)	(1,213)
Deferred income tax expense (recovery)	-	-	-	79	(831)	(752)
<b>Net Profit (Loss)</b>	<b>1,445</b>	<b>(1,927)</b>	<b>(482)</b>	<b>277</b>	<b>(738)</b>	<b>(461)</b>

<sup>(1)</sup> All results reported under Azerbaijan represent the Company's 33.33% proportionate share in Bahar Energy.

## Statements of net profit (loss) by segment

(US\$000's)	Nine months ended					
	September 30, 2012			September 30, 2011		
	Azerbaijan <sup>(1)</sup>	Corporate and Other	Total	Azerbaijan <sup>(1)</sup>	Corporate and Other	Total
<b>Revenues</b>						
Petroleum and natural gas (external)	16,002	-	16,002	15,953	-	15,953
Transportation and storage fees (external)	1,370	-	1,370	1,704	-	1,704
Management services fees	-	1,907	1,907	-	3,025	3,025
	17,372	1,907	19,279	17,657	3,025	20,682
<b>Expenses</b>						
Operating	12,877	-	12,877	12,196	-	12,196
Transportation	223	-	223	433	-	433
Exploration and evaluation	2,046	-	2,046	570	-	570
Pre-licensing costs	-	596	596	-	1,220	1,220
Administrative	1,929	8,815	10,744	2,587	8,231	10,818
Depreciation and amortization	525	53	578	44	29	73
	17,600	9,464	27,064	15,830	9,480	25,310
Profit (loss) from operating activities	(228)	(7,557)	(7,785)	1,827	(6,455)	(4,628)
Dividends, interest and other income	949	154	1,103	173	(352)	(179)
Loss on investments	-	-	-	-	108	108
Foreign exchange loss	-	815	815	-	-	-
Impairment of receivables recovery	-	(1,087)	(1,087)	-	-	-
Provisions	-	(125)	(125)	-	-	-
Change in fair value of derivative liability	-	191	191	-	-	-
Change in fair value of warrants	-	(341)	(341)	-	(1,163)	(1,163)
Profit (loss) before income taxes	(1,177)	(7,164)	(8,341)	1,654	(5,048)	(3,394)
Deferred income tax expense (recovery)	-	-	-	364	(1,763)	(1,399)
<b>Net Profit (Loss)</b>	<b>(1,177)</b>	<b>(7,164)</b>	<b>(8,341)</b>	<b>1,290</b>	<b>(3,285)</b>	<b>(1,995)</b>

<sup>(1)</sup> All results reported under Azerbaijan represent the Company's 33.33% proportionate share in Bahar Energy.

### Major customers

For the three and nine months ended September 30, 2012, 100% of petroleum and natural gas revenues of \$5.8 and \$16.0 million, respectively, (September 30, 2011 – \$5.2 and \$16.0 million, respectively) were sales to a single customer, the State Oil Company of Azerbaijan (“**SOCAR**”).

For the three and nine months ended September 30, 2012, the Company recorded \$0.7 and \$1.8 million, respectively (September 30, 2011 - \$0.6 and \$3.0 million, respectively) in management service fees for

management, administrative and technical support services performed for BEOC. (See Note 6 – Related Party Transactions)

## 18. 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,	
	2012	2011	2012	2011
Pending review				
Trade receivables	(860)	(1,222)	(903)	(1,419)
Receivables from related parties	(1,776)	(105)	(2,866)	(1,007)
Other receivable	3	(128)	(108)	(225)
Advances for operating supplies	558	-	(256)	-
Prepaid expenses and deposits	10	718	191	(1,839)
Inventories	2,175	-	1,424	-
Accounts payable and accrued liabilities	(2,147)	73	642	685
Provisions	-	-	(1,000)	-
Short term borrowing	-	-	(1,018)	-
Payables to related parties	1,132	91	1,473	(1,126)
	(905)	(573)	(2,421)	(4,931)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Accounts payable and accrued liabilities	364	-	736	(318)

### Changes in non-cash working capital items related to investing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Other receivable	33	4	43	(66)
Accounts payable and accrued liabilities	3,176	-	3,638	-
	3,209	4	3,681	(66)

## 19. DEFERRED INCOME TAXES

Currently, the Company's primary income producing assets are held through its 33.33% ownership in Bahar Energy. The project, being in the early rehabilitation and development stage, requires significant development funding and re-investment of operating cash flows for the foreseeable future. Earnings from the Bahar project are not taxable to the Company in the U.S. until Bahar Energy declares dividends from the surplus funds generated from the ERDPSA. Before Bahar Energy can declare dividends,

shareholders' loans must be repaid with accumulated interest payable. The loan principal repaid to the Company is non-taxable.

Most of the early funds returned from Bahar Energy being non-taxable loan principal repayments, the future period for the Company's potential taxable dividends receipts is beyond a period that is normally allowed under IFRS for recognition of deferred tax assets. As a result, the Company has elected to defer recognition of deferred tax benefits and the associated deferred tax asset until such time recovery and offset against future taxable income can be assured. In December 2011 the Company derecognized its accumulated deferred tax asset by reversing amounts accumulated in 2010 and for the nine months ended September 30, 2011.

## 20. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of September 30, 2012:

<i>(US\$000's)</i>	2012	2013	Thereafter
Operating leases <sup>(1)</sup>	38	152	-
Annual acreage fees	72	72	-
Debentures – interest payments <sup>(2)</sup>	1,097	2,171	7,597
	1,207	2,395	7,597

<sup>(1)</sup> The Company has extended its lease of office space for its corporate headquarters in the United States through December 2013.

<sup>(2)</sup> The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the September 28, 2012 exchange rate of 0.9837 USD/CAD.

The commitments of the Company include a \$28 million loan commitment to Bahar Energy for the funding of the deficit cash flows associated with the 2012 Bahar Annual Work Program and Budget ("WP&B"), which is subject to change.

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 Operating 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 overall supervision, direction and control of all matters pertaining to the Joint Operations.

## 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become payable. The Company's approach to managing liquidity is to ensure, as much as possible, that it will

have sufficient cash or cash equivalents to pay its obligations when due, under both normal and unusual conditions and without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation.

The Company prepares annual and interim period capital expenditures budgets, which are monitored and updated as considered necessary to provide current cash flow estimates. To facilitate the capital expenditure program, the Company may raise debt and capital through the issuance of debt or equity securities. Additional financing may be required to complete planned capital programs.

The Company's financial liabilities at September 30, 2012 and December 31, 2011 arose primarily from the recognition of its proportionate share of Bahar Energy liabilities for the Azerbaijan project. Payment terms on the Company's accounts payable and accrued liabilities are typically thirty to sixty days from invoice date and generally do not bear interest. Currently, the Company does not have any bank debt other than the short-term borrowing by Bahar Energy which was repaid within thirty days.

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

Liquidity Risks <i>(US\$000's)</i>	September 30, 2012				December 31, 2011
	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities	8,288	246	-	8,534	4,255
Debentures – interest payable	736	-	-	736	-
Short term borrowing	-	-	-	-	1,018
Provisions	-	-	-	-	1,000
Payables to related parties	2,085	-	-	2,085	612
Warrants	-	-	-	-	976
Notes payable to related parties	-	33,195	-	33,195	16,745
Debentures	-	-	24,118	24,118	-
	10,966	33,584	24,118	68,668	24,606

## 22. CAPITAL STRUCTURE AND MANAGEMENT

The Company considers its capital structure to include common share capital, convertible debt and working capital (a measurement defined as current assets less current liabilities, with current liabilities being the amounts on the face of the consolidated statements 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.

Capital structure <i>(US\$000's)</i>	September 30, 2012	December 31, 2011
Working capital	23,206	29,674
Convertible debt and shareholders' equity	56,814	36,521
Ratios of working capital to convertible debt and shareholders' equity	41%	81%