

**GREENFIELDS PETROLEUM
CORPORATION**



Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2012

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited, US\$000's

	Notes	As at March 31, 2012	As at December 31, 2011
Assets			
Current Assets			
Cash and cash equivalents	3	13,647	25,289
Short term investments	4	3,503	3,488
Trade receivables	5	3,880	3,310
Receivables from related parties	6	2,457	1,838
Other receivable		96	61
Prepaid expenses and deposits		122	310
Inventories	7	2,531	2,263
		26,236	36,559
Non-Current Assets			
Investments		201	228
Note receivable from related party	6	20,826	8,965
Advances for capital equipment	8	13,745	10,792
Property and equipment	8	6,134	4,583
		67,142	61,127
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	9	6,069	4,255
Short term borrowing	10	674	1,018
Provisions		1,000	1,000
Payables to related parties	6	920	612
Warrants	11	-	976
		8,663	7,861
Non-current Liabilities			
Notes payable to related parties	6	21,470	16,745
Shareholders' Equity			
Common shares	12	15	15
Paid in capital		59,909	56,705
Share-based payments reserve	13	4,121	3,830
Deficit		(27,037)	(23,983)
Investments revaluation reserve		1	(46)
Total Shareholders' Equity		37,009	36,521
		67,142	61,127
<i>(Basis of presentation and going concern - Note 2 and Commitments and contingencies - Note 17)</i>			

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

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

(signed) "Garry P. Mihaichuk"
 Garry P. Mihaichuk
 Director

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS

Unaudited, US\$000's except per share amounts

	Three Months Ended March 31,	
	2012	2011
Revenues		
Petroleum and natural gas	4,791	5,618
Transportation and storage fees	544	762
Management service fees	662	59
	5,997	6,439
Expenses		
Operating	5,462	3,895
Transportation	62	151
Exploration and evaluation	277	-
Pre-licensing costs	266	389
Administrative	3,338	2,665
Depreciation and amortization (Note 8)	98	20
	9,503	7,120
Loss from operating activities	(3,506)	(681)
Dividends, interest and other income	(248)	(52)
Interest expense	262	-
Provisions	(125)	-
Change in fair value of warrants (Note 11)	(341)	362
Loss before income taxes	(3,054)	(991)
Deferred income tax recovery (Note 16)	-	(160)
Net Loss	(3,054)	(831)
Per share		
Net loss per share, basic and diluted (Note 12)	(\$0.20)	(\$0.06)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Unaudited, US\$000's

	Three Months Ended March 31,	
	2012	2011
Net Loss	(3,054)	(831)
Gain arising from revaluation of available for sale financial assets during the period	48	15
Income tax expense	-	(5)
	48	10
Total comprehensive loss	(3,006)	(821)

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

	Three Months Ended March 31,	
	2012	2011
Common stock		
Balance, beginning of period	15	15
Common shares issued upon conversion	-	-
Issued pursuant to private placements	-	-
Issued pursuant to public offering	-	-
Balance, end of period	15	15
Paid in capital		
Balance, beginning of period	56,705	56,526
Issued pursuant to private placements	-	5
Repurchase of common shares	(120)	(208)
Share issue costs	-	(50)
Warrant exercise and liability reclassification	3,236	22
Share-based payments	88	15
Excess tax benefit - share grants	-	337
Balance, end of period	59,909	56,647
Share-based payments reserve <i>(Note 13)</i>		
Balance, beginning of period	3,830	1,361
Share-based payments	291	473
Balance, end of period	4,121	1,834
Deficit		
Balance, beginning of period	(23,983)	(7,445)
Net loss	(3,054)	(831)
Balance, end of period	(27,037)	(8,276)
Investment revaluation reserve		
Balance, beginning of period	(46)	-
Other comprehensive income for the period	47	10
Balance, end of period	1	-
Total Shareholders' Equity	37,009	50,230

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

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited, US\$000's

	Three Months Ended March 31,	
	2012	2011
Operating Activities		
Loss before income taxes	(3,054)	(991)
Adjustments:		
Share-based payments <i>(Note 13)</i>	379	487
Depreciation and amortization	98	20
Dividends and interest from investments	(17)	(52)
Interest income on related party notes receivable	(231)	-
Interest expense on related party notes payable	262	-
Change in fair value of warrants <i>(Note 11)</i>	(341)	362
	(2,904)	(174)
Change in non-cash operating working capital <i>(Note 15)</i>	(505)	(5,899)
Cash used in operating activities	(3,409)	(6,073)
Financing Activities		
Proceeds from issue of common shares	2,601	15
Share issue costs	-	(50)
Distributions to unitholders	-	(32)
Repurchase of common shares	(120)	(208)
Change in non-cash working capital <i>(Note 15)</i>	380	(318)
Proceeds from related party notes payable <i>(Note 6)</i>	4,463	4,995
Cash from financing activities	7,324	4,402
Investing Activities		
Purchase of property and equipment	(1,058)	(230)
Advances for capital equipment	(2,953)	-
Notes receivable from related parties	(11,631)	-
Short term investments	34	(9,796)
Cash dividends received	27	22
Cash interest received	24	26
Cash used in investing activities	(15,557)	(9,978)
Decrease in Cash and Cash Equivalents	(11,642)	(11,649)
Cash and Cash Equivalents, beginning of period	25,289	47,977
Cash and Cash Equivalents, end of period <i>(Note 3)</i>	13,647	36,328

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

GREENFIELDS PETROLEUM CORPORATION

Notes to the Condensed Consolidated Financial Statements

As at March 31, 2012 and for the three months ended March 31, 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**”) 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 are listed on Toronto’s TSX – Venture Exchange (“**TSX-V**”) under the trading symbol “GNF”.

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 May 27, 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 March 31, 2012 the Company had a total of \$8.2 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 \$0.7 million at March 31, 2012 (December 31, 2011 - \$ 1.3 million).

4. SHORT TERM INVESTMENTS

<i>(US\$000's)</i>	March 31, 2012	December 31, 2011
Corporate bonds at amortized cost	3,502	3,534
Fair market value adjustment	1	(46)
	<u>3,503</u>	<u>3,488</u>

The Company periodically invests in investment grade securities. At March 31, 2012, the Company had a total of \$3.5 million (December 31, 2011 - \$ 3.5) invested in BBB grade or better corporate bonds with maturities ranging from three to twenty two months. For the period ended March 31, 2012, the Company earned interest income of \$17 thousand (2011 – \$29 thousand).

5. TRADE RECEIVABLES

<i>(US\$000's)</i>	March 31, 2012	December 31, 2011
Petroleum	2,467	1,923
Natural gas	901	529
Transportation and storage fees	512	858
	<u>3,880</u>	<u>3,310</u>

6. RELATED PARTY TRANSACTIONS

Current

Receivables from related parties

At March 31, 2012 the Company had a balance of \$2.5 million (December 31, 2011 - \$1.8 million) in accounts receivable from Bahar Energy, which included the Company. Balances due are attributable to work performed under "Affiliate Service Orders" ("**ASO**") as approved by BEOC. Management considers the balances due are collectable net of an impairment of \$1.1 million.

For the period ended March 31, 2012 the Company recorded \$0.7 million (March 31, 2011 – \$ nil) in management service fees for management, administrative and technical services performed at cost for Bahar Energy under ASO's noted above.

Payables to related parties

At March 31, 2012 the Company had a \$ 0.9 million (December 31, 2011 - \$0.6 million) payable balance to certain shareholders of Bahar Energy, which included the Company, associated with amounts invoiced on "Affiliate Service Orders" ("**ASO**") and other direct invoicing for services provided by the Company, in this case, to Bahar Energy Operating Company Ltd. ("**BEOC**"), a jointly controlled entity.

Under the terms of the ERDPSA, the affiliates of Bahar Energy including the Company may bill for management, administrative, support and technical support services provided to BEOC under ASO's. The billing rates are to be at each partner's cost and not to exceed commercial rates that would typically be charged by a third party. For the period ended March 31, 2012 the Company recorded \$0.2 million associated with its proportionate share of costs billed by affiliates, which included the Company, of Bahar Energy to BEOC (March 31, 2011 - \$ 0.5).

Non-current

Note receivable from related party

At March 31, 2012 the Company has a note and interest receivable balance of \$ 20.8 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 "Notes payable to related parties" below.

Notes payable to related parties

At March 31, 2012 the Company, through its 33.33% interest in Bahar Energy, had a related party notes and interest payable balance of \$21.4 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.

7. INVENTORIES

At March 31, 2012 the Company had inventories of \$2.5 million (December 31, 2011 - \$ 2.3 million), relating to operating materials and supplies consisting of spare parts, consumables, lubricants and fuel.

8. PROPERTY AND EQUIPMENT

<i>(US\$000's)</i>	Assets Under Construction ⁽¹⁾	Oil and Gas Properties ⁽¹⁾	Corporate and Other	Total
Fixed assets				
As at December 31, 2010	352	666	86	1,104
Additions	3,010	189	465	3,664
Transfers	(352)	352	-	-
As at December 31, 2011	3,010	1,207	551	4,768
Additions	809	740	101	1,650
As at March 31, 2012	3,819	1,947	652	6,418
Accumulated depreciation and depletion				
As at December 31, 2010	-	3	14	17
Additions	-	69	99	168
As at December 31, 2011	-	72	113	185
Additions	-	70	29	99
As at March 31, 2012	-	142	142	284
Net property and equipment				
As at December 31, 2010	352	663	72	1,087
As at December 31, 2011	3,010	1,135	438	4,583
As at March 31, 2012	3,819	1,805	510	6,134

⁽¹⁾ Assets Under Construction and Oil and Gas Properties represent the Company's proportionate share of these assets of Bahar Energy.

At March 31, 2012 the Company had a balance of \$13.7 million in non-refundable advances for capital equipment purchases (December 31, 2011 – \$ 10.8 million), primarily related to casing, tubing, wellhead equipment and steel purchases for platform rehabilitation and new drilling in the Gum Deniz and Bahar fields scheduled to start in the summer of 2012.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

<i>(US\$000's)</i>	March 31, 2012	December 31, 2011
Trade accounts payable	4,280	2,406
Accrued liabilities	1,737	1,837
Other payable	52	12
	6,069	4,255

10. SHORT TERM BORROWING

At March 31, 2012 the Company had recorded a liability associated with short term borrowing of \$0.7 million (December 31, 2011 – \$ 1.0 million) which reflects its 33.33% share of a temporary bank loan arranged by BEOC to cover short-term working capital deficits of BEOC. The amounts are typically repaid within 30 days.

The short term loan balances at March 31, 2012 and December 31, 2011 were repaid by BEOC within 30 days following month end.

11. WARRANTS

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

During January and February 2012, before the February 24, 2012 expiration of the Company's warrants issued pursuant to a private equity placement completed in February 2010, all 519,500 warrants outstanding at December 31, 2011 were exercised. The Company raised CAD\$2,597,500 (approximately USD\$2,601,000) as a result of warrants holders exercising their warrants.

All warrants issued were exercised between the original issue date and the expiration date.

12. SHAREHOLDERS' EQUITY

Common shares continuity schedule:

Issued common shares <i>(US\$000's, except for share numbers)</i>	Number of Common Shares	Amount
As at December 31, 2010	14,866,021	56,541
Share issue costs	-	(55)
Repurchase of common shares	(20,641)	(208)
Warrants exercised	5,500	44
Share-based compensation	-	398
As at December 31, 2011	14,850,880	56,720
Warrants exercised	519,500	3,236
Share-based compensation	40,000	88
Repurchase of common shares	(20,026)	(120)
As at March 31, 2012	15,390,354	59,924

Reconciliation of issued and outstanding shares

	March 31, 2012	December 31, 2011
Issued	15,434,327	14,874,827
Treasury shares acquired by Company <i>(See Note 13)</i>	(43,973)	(23,947)
Total Outstanding	15,390,354	14,850,880

On June 30, 2011, all 23,947 treasury shares acquired by the Company during 2010 and 2011 were cancelled. The Company acquired 20,026 treasury shares during the quarter all of which were held as at March 31, 2012. *(See Note 13 – Share-based Payments)*

Per Share Information

For the period ended March 31, 2012 basic per share amounts are calculated using the weighted average number of common shares outstanding of 15,141,332 (March 31, 2011 – 14,853,652).

Per share loss		
<i>(US\$000's, except for per share amounts)</i>	March 31, 2012	March 31, 2011
Net loss	(3,054)	(831)
Basic and diluted loss per share	(\$0.20)	(\$0.06)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options and warrants was based on quoted market prices for the period that the equity instruments were outstanding. For the period ended March 31, 2012 the 1,472,250 options (March 31, 2011 – 1,211,000 options) and zero warrants (March 31, 2011 – 522,000) were excluded from calculating dilutive earnings as they were anti-dilutive.

13. SHARE-BASED PAYMENTS

The Company has a stock option plan that 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 stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of stock.

Continuity of stock options	March 31, 2012		December 31, 2011	
	Number of options	Average exercise price (CND\$)	Number of options	Average exercise price (CND\$)
Outstanding, beginning of period	1,392,250	7.17	1,211,000	6.87
Granted	80,000	6.00	230,000	8.64
Forfeited	-	-	(48,750)	6.50
Outstanding, end of period	1,472,250	7.11	1,392,250	7.17
Exercisable, end of period	749,250	6.98	721,750	6.98

Share-based payments reserve

<i>(US\$000's)</i>	Amount
Balance December 31, 2011	3,830
Share-based payments, options	316
Share-based payments, shareholders settled claims	(125)
Share-based payments, benefits from shareholders	100
Balance March 31, 2012	4,121

The exercise prices of the share options range from CAD\$6.00 to CAD\$9.50 per common share with all options expiring on various dates between years 2016 and 2021. The share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of grant date. The 749,250 exercisable options as at March 31, 2012 have remaining contractual lives ranging from 4.4 to 9.1 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.

For the three months ended March 31, 2012 the Company recorded share options expense of \$316 thousand (2011: \$472 thousand).

Restricted Stock 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 stock 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 months ended March 31, 2012 the Company recorded share-based payments expense related to share grants of \$88 thousand (2011 - \$15 thousand). 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 which the benefits are received. For the three months ended March 31, 2012, the Company recorded a \$100 thousand (2011 - \$ nil) expense 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 months ended March 31, 2012 the Company has recorded a \$125,000 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.

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.

As at March 31, 2012 the Company holds 20,026 treasury shares (March 31, 2011 – 20,641).

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

14. 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.

Total assets and liabilities

(US\$000's)	March 31, 2012			December 31, 2011		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Current assets	7,201	19,035	26,236	7,082	29,477	36,559
Non-current assets (excluding capital assets)	-	21,027	21,027	-	9,193	9,193
Capital assets ⁽¹⁾	19,815	64	19,879	15,304	71	15,375
Total assets	27,016	40,126	67,142	22,386	38,741	61,127
Current liabilities	(6,999)	(1,664)	(8,663)	(5,002)	(2,859)	(7,861)
Non-current liabilities	(21,470)	-	(21,470)	(16,745)	-	(16,745)
Total liabilities	(28,469)	(1,664)	(30,133)	(21,747)	(2,859)	(24,606)

⁽¹⁾ Capital Assets include property and equipment and advances made for capital equipment purchases.

Capital expenditures

(US\$000's)	March 31, 2012			Three months ended March 31, 2011		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Capital Expenditures	4,598 ⁽¹⁾	4	4,602	202	28	230

⁽¹⁾ Includes property and equipment and advances for capital equipment.

Statements of net losses by segment

(US\$000's)	Three months ended					
	March 31, 2012			March 31, 2011		
	Azerbaijan ⁽¹⁾	Corporate and Other	Total	Azerbaijan ⁽¹⁾	Corporate and Other	Total
Revenues						
Petroleum and natural gas (external)	4,791	-	4,791	5,618	-	5,618
Transportation and storage fees (external)	544	-	544	762	-	762
Management services fees	-	662	662	-	59	59
	5,335	662	5,997	6,380	59	6,439
Expenses						
Operating	5,462	-	5,462	3,895	-	3,895
Transportation	62	-	62	151	-	151
Exploration and evaluation	277	-	277	-	-	-
Pre-licensing costs	-	266	266	-	389	389
Administrative	602	2,736	3,338	370	2,295	2,665
Depreciation and amortization	86	12	98	11	9	20
	6,489	3,014	9,503	4,427	2,693	7,120
Losses from operating activities	(1,154)	(2,352)	(3,506)	1,953	(2,634)	(681)
Dividends, interest and other income	-	(248)	(248)	-	(52)	(52)
Interest expense	262	-	262	-	-	-
Provisions	-	(125)	(125)	-	-	-
Change in fair value of warrants	-	(341)	(341)	-	362	362
	(1,416)	(1,638)	(3,054)	1,953	(2,944)	(991)
Deferred income tax expense (recovery)	-	-	-	685	(845)	(160)
Net losses	(1,416)	(1,638)	(3,054)	1,268	(2,099)	(831)

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

Major customers

For the period ended March 31, 2012, 100% petroleum and natural gas revenues of \$4.8 million (March 31, 2011 – \$5.6 million) were sales to a single customer, the State Oil Company of Azerbaijan.

For the period ended March 31, 2012 the Company recorded \$0.6 million (2011 - \$ nil) in management service fees for management, administrative and technical support services performed for BEOC. (See Note 6 – Related Party Transactions)

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

<i>(US\$000's)</i>	Three months ended	
	2012	March 31, 2011
Trade receivables	(570)	(3,582)
Receivables from related parties	(619)	(1,572)
Other receivable	(44)	77
Prepaid expenses and deposits	188	(1,448)
Inventories	(268)	-
Accounts payable and accrued liabilities	844	310
Short term borrowing	(344)	-
Payables to related parties	308	316
	(505)	(5,899)

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

<i>(US\$000's)</i>	Three months ended	
	2012	March 31, 2011
Accounts payable and accrued liabilities	380	(318)
	380	(318)

16. 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.

17. COMMITMENTS AND CONTINGENCIES

Other than the commitments noted below, there have been no changes in the Company's commitments for ERDPSA related annual acreage fees and the timing of those payments as reflected in the 2011 audited consolidated financial statements.

The following is a summary of the Company's contractual obligations and commitments as of March 31, 2012:

<i>(US\$000's)</i>	2012	2013	Thereafter
Operating leases ⁽¹⁾	114	152	-
Annual acreage fees	72	72	-
	186	224	-

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

Effective February 1, 2012 the Company retained an outside firm to provide investor relations services. As part of the compensation associated with the services agreement, the Company will award 150,000 stock options to the firm to purchase common shares of the Company. At the time of the agreement the Company was restricted from issuing options due to the limited number of available options. In April the Company was in a position to award the options to the firm as contemplated by the terms of the agreement and in accordance with the policies of the TSX Venture Exchange and the Company's Option Plan.

18. 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 March 31, 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	March 31, 2012			December 31, 2011
	Within 1 year	Within 1 – 3 years	Total	Total
<i>(US\$000's)</i>				
Accounts payable and accrued liabilities	6,069	-	6,069	4,255
Short term borrowing	674	-	674	1,018
Provisions	1,000	-	1,000	1,000
Payables to related parties	920	-	920	612
Warrants	-	-	-	976
Notes payable to related parties	-	21,470	21,470	16,745
	8,663	21,470	30,133	24,606

19. 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 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	March 31, 2012	December 31, 2011
<i>(US\$000's)</i>		
Working capital	17,573	29,674
Shareholders' equity	37,009	36,521
Ratios of working capital to shareholders' equity	47%	81%

20. SUBSEQUENT EVENTS

Settlement of Claims

On May 18, 2012 the Company settled a claim made by a former consultant who had claimed rights to, among other things, a referral fee in the form of a small interest in the wholly-owned subsidiary of the Company that owns its 33.33% interest in Bahar Energy. In settlement, the Company entered into a new consulting agreement with the consultant with compensation of \$1.0 million to be paid over 18 months. In addition, certain shareholders agreed to supplement the settlement with shares of their own stock in the Company. Previously, in December 2011, the Company had recorded a provision of \$2.0 million for settlement of this claim. The Company has recorded a \$125,000 provision expense recovery to reflect the final settlement amount associated with the shareholder transaction. No treasury shares of the Company were issued as part of this settlement.

Convertible Debentures

On May 30, 2012 the Company issued \$23.7 million of convertible unsecured subordinated debentures (the "**Debentures**"). The Debentures will 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 (each an "**Interest**").

Payment Date") starting on November 30, 2012 and will mature and be repayable on May 31, 2017 (the **"Maturity Date"**).

Each \$1,000 Debenture principal amount will 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 of \$8.55 per common share of the Company and is subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date to the date of conversion.