TRANSEURO ENERGY

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2012 AND 2011

NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

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

Date: November 29, 2012

"Darren Moulds"

Chief Financial Officer

TRANSEURO ENERGY

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

($ Canadian)		**September 30, 2012** *(unaudited)*		December 31, 2011 *(unaudited)*
ASSETS				
Current				
Cash	**$**	**1,881,035**	$	3,896,335
Restricted cash (Note 7)		**1,233,072**		-
Accounts receivable		**426,701**		435,329
Prepaid expenses and deposits		**166,459**		237,700
Assets held for sale (Note 3)		**1,342,553**		207,651
Inventory		**213,567**		162,027
		5,263,387		4,939,042
Long-term				
Reclamation deposits		**574,900**		574,900
Investment in associate (Note 4)		**1,110,382**		-
Exploration and evaluation assets (Note 5)		**10,501,463**		30,260,574
Property, plant and equipment		**6,297,461**		7,622,008
		18,484,206		38,457,482
	$	**23,747,593**	$	43,396,524
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**2,075,021**	$	5,335,085
Loan payable (Note 6)		**926,699**		-
		3,001,720		5,335,085
Long-term				
Asset retirement obligations		**6,744,368**		6,679,135
Long-term debt (Note 7)		**7,580,332**		-
Long-term derivative instrument (Note 7)		**575,276**		-
		14,899,976		6,679,135
	$	**17,901,696**	$	12,014,220
SHAREHOLDERS' EQUITY				
Share capital (Note 8)		**163,227,360**		163,227,360
Contributed surplus (Note 8)		**22,547,970**		21,564,548
Warrants (Note 8)		**941,900**		890,204
Deficit		**(170,814,027)**		(147,849,842)
Accumulated other comprehensive income		**(10,057,306)**		(6,449,966)
		5,845,897		31,382,304
Basis of Presentation and Going Concern (Note 2)				
Subsequent Events (Note 17)				
	$	**23,747,593**	$	43,396,524

Approved on behalf of the board of directors

"David Worrall" — David Worrall, Director

"Pedro Paulo" — Pedro Paulo, Director

See accompanying notes to the interim condensed consolidated financial statements

TRANSEURO ENERGY

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/ INCOME

($ Canadian)	Three months ended September 30, **2012** *(unaudited)*	Three months ended September 30, 2011 *(unaudited)*	Nine months ended September 30, **2012** *(unaudited)*	Nine months ended September 30, 2011 *(unaudited)*
Revenue				
Natural gas sales	**$ 332,927**	$ 825,786	**$ 1,195,013**	$ 1,036,681
Other income	**-**	144,318	**177,000**	144,318
Royalties	**(8,566)**	(48,554)	**(31,418)**	(78,978)
	324,361	921,550	**1,340,595**	1,102,021
Expenses				
Transportation, gathering and processing	**164,891**	124,044	**649,899**	228,823
Operating expenses (Note 11)	**415,158**	573,323	**1,450,843**	930,007
Depreciation and depletion	**331,674**	27,300	**904,503**	146,134
Stock-based compensation (Note 8)	**140,498**	91,830	**983,422**	491,050
General and administrative (Note 12)	**678,627**	1,201,332	**2,364,951**	2,598,246
Finance costs (Note 10)	**634,824**	102,623	**1,242,376**	594,210
Gain on acquisition	**-**	-	**-**	(5,072,695)
Gain on sale (Note 13)	**-**	145,383	**(802,167)**	-
Loss on sale of investment in subsidiary (Note 4)	**-**	-	**477,312**	-
Gain on derivative instruments (Note 7)	**(1,430,896)**	-	**(1,990,131)**	-
Impairment of exploration and evaluation assets (Note 5)	**20,943,067**	-	**20,943,067**	-
Foreign exchange (gain)/loss	**(1,742,274)**	225,550	**(1,919,295)**	220,555
	20,135,569	2,491,385	**24,304,780**	136,330
Net (loss)/income	**(19,811,208)**	(1,569,835)	**(22,964,185)**	965,691
Other comprehensive (loss)/income				
Foreign currency translation	**(3,499,372)**	(372,283)	**(3,607,340)**	439,735
Realized gain on available for sale financial assets recognized in income	**-**	145,383	**-**	-
Comprehensive (loss)/income	**$ (23,310,580)**	$ (1,796,735)	**$ (26,571,525)**	$ 1,405,426
Basic and diluted net (loss)/gain per share	**$ (0.06)**	$ (0.02)	**$ (0.07)**	$ 0.01
Weighted average number of common shares outstanding, basic and diluted (Note 13)	316,702,258	86,338,814	316,702,258	84,352,628

See accompanying notes to the interim condensed consolidated financial statements

TRANSEURO ENERGY

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ Canadian)	**Nine months ended September 30, 2012 *(unaudited)***	Nine months ended September 30, 2011 *(unaudited)*
Common Shares		
Balance, beginning of period	**$ 163,227,360**	$ 146,047,511
Private placement, net of issuance costs	**-**	4,059,608
Warrants exercised	**-**	1,365,261
Balance, end of period	**$ 163,227,360**	$ 151,472,380
Warrants		
Balance, beginning of period	**$ 890,204**	$ 721,015
Exercised	**-**	(350,434)
Granted	**51,696**	890,204
Expired	**-**	(370,581)
Balance, end of period	**$ 941,900**	$ 890,204
Contributed Surplus		
Balance, beginning of period	**$ 21,564,548**	$ 20,618,329
Share-based compensation	**983,422**	509,132
Expiry of warrants	**-**	370,581
Balance, end of period	**$ 22,547,970**	$ 21,498,042
Accumulated other comprehensive income/(loss)		
Balance, beginning of period	**$ (6,449,966)**	$ (2,263,895)
Foreign currency translation	**(3,815,103)**	812,018
Realized foreign currency translation on impairment of exploration and evaluation assets	**207,763**	-
Balance, end of period	**$ (10,057,306)**	$ (1,451,877)
Deficit		
Balance, beginning of period	**$ (147,849,842)**	$ (155,893,094)
Net (loss)/income	**(22,964,185)**	965,691
Balance, end of period	**$ (170,814,027)**	$ (154,927,403)

See accompanying notes to the interim condensed consolidated financial statements

TRANSEURO ENERGY

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian)		**Nine months ended September 30, 2012** *(unaudited)*		Nine months ended September 30, 2011 *(unaudited)*
Cash (used in) provided by:				
Operating activities:				
Net loss	**$**	**(22,964,185)**	$	965,691
Non cash items:				
Depreciation and depletion		**904,503**		146,134
Stock-based compensation (Note 8)		**983,422**		491,050
Gain on acquisition		**-**		(5,072,695)
Impairment of exploration and evaluation assets (Note 5)		**20,943,067**		-
Unrealized foreign exchange loss/(gain)		**(2,077,640)**		326,255
Finance costs (Note 10)		**1,152,920**		575,171
Loss on sale of subsidiary (Note 4)		**477,312**		-
Gain on sale (Note 13)		**(802,167)**		-
Gain on derivative instruments (Note 7)		**(1,990,131)**		-
Cash from operations before changes in non-cash working capital		**(3,372,899)**		(2,568,394)
Change in non-cash working capital (Note 15)		**(2,304,396)**		(4,356,939)
		(5,677,295)		(6,925,333)
Financing activities:				
Common shares issued		**-**		698,610
Loan received from Questerre		**-**		2,000,000
Loan proceeds excluding transaction costs (Note 6)		**950,000**		-
Convertible debenture excluding transaction costs (Note 7)		**8,368,736**		2,548,320
Net change in non-cash working capital (Note 15)		**442,927**		-
Warrants exercised		**-**		1,014,827
		9,761,663		6,261,757
Investing activities:				
Additions of exploration and evaluation assets (Note 5)		**(4,895,475)**		(3,355,459)
Additions of property, plant and equipment		**(82,631)**		(454,583)
Addition of assets held for sale (Note 3)		**(1,134,902)**		-
Work commitments recovered		**-**		(201,663)
Proceeds from sale of subsidiary (Note 4)		**494,825**		-
Proceeds from sale (Note 13)		**802,167**		267,430
Net change in non-cash working capital (Note 15)		**(1,291,655)**		2,493,090
		(6,107,671)		(1,251,185)
Decrease in cash		**(2,023,303)**		(1,914,761)
Net effect of foreign exchange on cash held in foreign currencies		**8,003**		(8,243)
Cash, beginning of period		**3,896,335**		2,246,960
Cash, end of period	**$**	**1,881,035**	$	323,956
Supplemental cash flow information:				
Interest paid		**-**		-
Income taxes paid		**89,178**		-

See accompanying notes to the interim condensed consolidated financial statements

1. REPORTING ENTITY

Transeuro Energy Corp. (the "Company" or "Transeuro") is a publicly traded company and is listed on the TSX Venture Exchange and Oslo Axess under the symbol "TSU". The Company was incorporated in British Colombia and is extra provincially registered in Alberta. Transeuro's head office is located at Suite 2800 – 350 7th Ave SW, Calgary, AB, Canada, T2P 3N9. Transeuro is involved in the acquisition of petroleum and natural gas rights, the exploration for, and development and production of crude oil, condensate and natural gas.

These interim condensed consolidated financial statements include Transeuro Energy Corp. and its wholly-owned subsidiaries Grey Creek Petroleum Limited Inc., Indusmin Energy Corporation, Mattson Holdings Ltd., Transeuro Beaver River Inc. (formerly Questerre Beaver River), Team Energy LLC, Scythian Energy B.V., Samartian Energy B.V., South Crimea Energy B.V., West Crimea Energy B.V., Ammonite B.V., Indusmin LLC, and Ammonite LLC.

2. BASIS OF PRESENTATION AND GOING CONCERN

These interim condensed consolidated financial statements for the period ended September 30, 2012 have been prepared using International Financial Reporting Standards ("IFRS") in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not contain all disclosures required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2011.

The accounting policies and fair value determination applied by the Company for these interim condensed consolidated financial statements are the same as those disclosed and applied by the Company as discussed in Note 3 of the audited consolidated financial statements as at and for the year ended December 31, 2011. Additional accounting policies relating to the Company's new financing have also been applied as described below:

Financial Liabilities
Financial liabilities are classified as i) financial liabilities at fair value through profit or loss ("FVTPL") or ii) as other financial liabilities measured at amortized cost. The Company determines the classification of its financial liabilities upon initial recognition. The measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss
Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including bifurcated embedded derivatives, are also classified as FVTPL. Changes in the fair value of financial liabilities classified as FVTPL are recognized through earnings. The Company's derivative instruments are classified as financial liabilities at FVTPL.

ii. Other Financial Liabilities
Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities, loan payable, and long term debt are classified as other financial liabilities.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on November 28, 2012.

a. Basis of measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for investment in associate and derivative instruments which are measured at fair value with changes in fair value recorded in earnings.

b. Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars. The functional currency of the Canadian parent company is the Canadian dollar. The functional currency of foreign subsidiaries includes the Euro ("EUR"), Armenian Dram, U.S. dollar ("USD") and Ukraine Hryvna ("UAH").

c. Use of estimates and judgments

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies regarding certain types of assets, liabilities, revenues and expenses in the preparation of the interim condensed consolidated financial statements. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements is included the notes to the interim condensed consolidated financial statements.

d. Going concern

Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the interim condensed consolidated financial statements. Actual results could differ from those estimates.

These interim condensed consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. Transeuro is a development stage enterprise that participates in oil and gas projects located in emerging markets, including the Ukraine. To date, Transeuro has not found proven reserves internationally. Oil and gas exploration, development and production activities in emerging markets, are subject to significant uncertainties which may adversely affect the Company's operations. Uncertainties include, but are not limited to, the risk of war, terrorism, expropriation, nationalization, renegotiation or nullification of existing or future concessions and contracts, the imposition of international sanctions, a change in crude oil or natural gas pricing policies, a change in taxation policies, and the imposition of currency controls. These uncertainties, all of which are beyond the Company's control, could have a material adverse effect on Transeuro's business, prospects and results of operations. In addition, if legal disputes arise related to oil and gas concessions acquired by the Company, Transeuro could be subject to the jurisdiction of courts other than those of Canada. The Company's recourse may be limited in the event of a breach by a government or government authority of an agreement governing a concession in which Transeuro acquires an interest. The Company may require licenses or permits from various governmental authorities to carry out future exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required.

The Company has operating assets in Canada that in 2012 and 2011 generated negative operating cash flow. For the nine months ended September 30, 2012 the Company had net loss of $22,964,185 used cash of $5,677,295 for operating activities. Consequently, the Company's ability to continue as a going concern is dependent on the Company's ability to obtain additional financing if, as and when required, and, ultimately, the attainment of profitable operations.

Management's assessment of the Company, based on its current cash flow forecast and financial model, is that there is significant uncertainty as to whether it is a going concern because of the following factors:

a) The minimum work commitments and financial obligations (Note 16) required under the various licenses raises doubt over the Company's ability to fund its commitments as they come due.
b) As at September 30, 2012, the Company has cash of $1,881,035, which will cover short-term expenditures, but are unlikely to cover the cash flow needs of the following twelve months.

Management's plans for addressing the above factors are as follows:

a) During the nine month period ended September 30, 2012 the Company secured two financing facilities with Yorkville Advisors LLP ("Yorkville"), for $5 million in debt (Note 6) and NOK 100 million under a voluntary, electable share purchase agreement, giving the Company access to funds to ensure available funding for the next twelve months. However, the Company will not be able to utilize the share purchase agreement until certain regulatory approvals are completed. It is unlikely that this facility will be available until 2013 (Note 9 and 17).
b) As a development stage exploration company, Transeuro will continue its efforts to seek appropriate financing initiatives to meet its obligations that benefit the Company and its shareholders. Among the alternatives, the Company will assess the relative cost/benefit of additional issuance of shares from treasury, financing alternatives or farm-out opportunities.
c) During the second half of 2011, management has implemented a series of operational changes on its Beaver River (Canadian) assets, which have improved operating efficiency. Additionally, in November, 2012, the Company has amended its gas sales terms, which will bring down transportation, gathering and processing charges on gas production by approximately 35%. Management believes that these changes will improve the operating cash flow in 2012 and into 2013, but will remain highly dependent on future gas prices and production levels.
d) The Company is in the process of negotiating the sale of its assets held for sale in Armenia (Note 3).
e) The Company is reviewing new production and exploration assets that can provide immediate or short term revenue as well as good investment opportunities to increase production through development and exploration activities. Securing these additional assets will allow the Company to pursue additional financing at attractive prices.

There can be no assurance that the above plan will be completed as described and these interim condensed consolidated financial statements do not give effect to adjustments that would be necessary and could be material to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

3. ASSETS HELD FOR SALE

During 2011, the Board approved the decision to export the Company's drilling rig from Armenia and to negotiate a sale. The carrying value of the rig was removed from Property Plant and Equipment and classified as assets held for sale. In 2011 the Company accepted an offer to purchase the rig but was subsequently unable to meet the export timeline due to a delay in receiving an export license. The Company is still currently in the process of negotiating a sales contract with several interested parties. The Company recorded an impairment on the asset held for sale as at the year ended December 31, 2011 of $826,733 to reflect the estimated net proceeds that will be received after transporting the rig and closing the sale. The increase in assets held for sale during 2012 is due to export costs capitalized that were incurred during the period ended September 30, 2012. No further impairment has been recorded as proceeds are expected to exceed the carrying value together with any future export costs.

The amount recorded is subject to change based on changes in the expected net realizable value due to export and associated costs. Once the Company has completed the sale, High Arctic Energy Services Inc. is entitled to receive 50% of the net proceeds arising from the sale, the Company has accounted for the net book value accordingly to its 50% interest.

4. INVESTMENT IN ASSOCIATE

During the first quarter of 2012, the Company completed a transaction to sell 85% of its interest in East Crimea BV. East Crimea BV is the holding company that holds title to the Joint Activity Agreement to develop the Povorotnoye gas field in East Crimea.

Under the terms of the sale, the purchaser will drill well one to a depth of approximately 4,000 meters, and if a commercial discovery is declared, to put the well into production. The purchaser will then drill a second development well, commencing before May 15th 2016. The purchaser is solely responsible for the costs associated with the drilling of the two wells noted and the acquisition seismic on the licenses, subsequent to which the costs will revert to the ownership interest.

The Company received USD $350,000 from the purchaser in 2011, representing the initial payment under the sale. Up to a further USD $150,000 will be paid by the purchaser to cover costs incurred relating to the transfer of ownership in East Crimea BV. The loss recorded by the Company of $477,312 is the based on proceeds received, the de-recognition of 85% of the net assets prior to sale, and the recognition of $1,128,529 as the fair value of the investment.

The Company evaluated the fair value of this investment as at September 30, 2012 and determined that there was no adjustment in fair value. The increase in the value carried at is due to fluctuations in the foreign exchange rates. The investment will be evaluated at each interim period for change in fair value, any changes in the value will recorded to the statement of comprehensive income/loss.

During the first quarter of 2012 the purchaser made the first staged payment of USD $500,000 on completion of the transaction. A second payment of USD $500,000 is due on spudding of well one and a final payment of USD $500,000 on the commencement of testing operations on well one. Should these contingent payments be received they will be offset against the loss recorded on disposition.

5. EXPLORATION AND EVALUATION ASSETS

	Ukraine	Canada	Total
Balance at January 1, 2011	$ 14,542,596	$ -	$ 14,542,596
Acquired on buisness combination	-	6,250,000	6,250,000
Additions	11,660,748	301,451	11,962,199
Change in estimate of asset retirement obligation	132,763	652,784	785,547
Transfer to property, plant and equipment	-	(4,270,235)	(4,270,235)
Foreign currency translation	990,467	-	990,467
Balance at December 31, 2011	$ 27,326,574	$ 2,934,000	$ 30,260,574
Additions	4,818,154	77,321	4,895,475
Sale of investment in subsidiary (Note 4)	(3,123,525)	-	(3,123,525)
Change in estimate of asset retirement obligation	(11,495)	1,521	(9,974)
Foreign currency translation	(578,020)	-	(578,020)
Impairment	(20,943,067)	-	(20,943,067)
Balance at September 30, 2012	**$ 7,488,621**	**$ 3,012,842**	**$ 10,501,463**

As at September 30, 2012, the Company assessed the fair value of its Ukraine E&E assets. As a result of the operational updates on Karl-101 released in November, 2012, the uncertainty of future operations and the ongoing negotiations for the various licenses in Ukraine (Note 16), the Company has recorded an impairment charge of $20,943,067 through profit and loss. Due to the impairment recorded the Company also recognized a loss of $207,763 of foreign currency translation adjustments relating to the cumulative foreign currency revaluation of the impaired assets from other comprehensive income to earning through foreign exchange.

6. LOAN PAYABLE

During the second quarter of 2012 the Company finalized a financing facility with Yorkville (a third party) including a Loan Agreement for up to CAD $5.0 million. Under the terms of the Loan Agreement, Transeuro can receive up to CAD $5.0 million over a period of 24 months, which shall be advanced in tranches of CAD $1.0 million with repayment over 12 months. The loan will be unsecured and pay annual interest at 12%. On May 16, 2012 The Company has drawn the first instalment of the Loan Agreement in the amount of CAD $1.0 million and has issued 1 million, one year share purchase warrants (Note 8) with the exercise price of CAD $0.168 to Yorkville. Repayment of the first draw down installment commenced in August 2012 and ends in May 2013. Refer to Note 9 for additional information on the Yorkville facility.

7. CONVERTIBLE BOND

On May 22, 2012 the Company closed a NOK 60 million (approximately CAD $10.3 million) secured convertible bond. The final terms of the secured convertible bond are annual interest at 12% and a conversion price at NOK 0.85 (approximately CAD $0.146). The bond is secured against the shares of Transeuro Beaver River Inc, the Company subsidiary holding title to 50% of the Beaver River field in British Columbia, Canada. Restricted cash of NOK 7,000,000 (September 30, 2012 - CAD $1,233,072) is being held in escrow as security for interest to be paid at the first anniversary of the bond. Refer to Note 8(b) for additional information on the Yorkville facility.

Long-term derivative instrument

As a result of the conversion option the debt is bifurcated into debt and the convertible option. The NOK denominated convertible bond is considered to contain an embedded derivative since the functional currency of the Company is the Canadian dollar. The fair value of the convertible component as at May 22, 2012 was $2,563,975 determined using the Black-Scholes valuation method using a risk free rate interest rate of 1.02%, a dividend yield of 0%, a weighted average volatility factor 60%, market price per common share of NOK 0.65 and an expected life of 3 years. Transaction costs relating to the derivative portion of the instrument totalled $167,794 and were charged to finance costs through profit and loss.

The fair value of the convertible component was revalued as at September 30, 2012 using the Black-Scholes valuation method using a risk free rate interest rate of 1.16%, a dividend yield of 0%, a weighted average volatility factor 60%, market price per common share of NOK 0.34 and an expected life of 2.64 years. As at September 30, 2012 fair value was determined to be $575,276, resulting in a change of $1,990,131 since inception, relating to the change in value due to the Black-Scholes inputs and $1,431 relating to foreign exchange, both of these amounts are recorded through profit and loss.

If the volatility used to fair value the convertible component decreased by 10% the fair value would decrease by $228,987. If the volatility increased by 10%, the fair value of the convertible option would increase by $253,361.

If the share price used to fair value the convertible component decreased by NOK 0.10 the fair value would decrease by $337,163. If the share price increased by NOK 0.10 the fair value of the convertible option would increase by $470,095.

Long-term liability

The liability component is determined by taking the face value of the bond less the fair value of the equity and finance costs. The debt will be accreted until bond maturity back to face value.

		Amount
Convertible debenture	$	10,273,973
Unamortized derivative instrument		(2,251,261)
Unamortized transaction costs		(442,380)
Balance September 30, 2012	**$**	**7,580,332**

The remaining unamortized component consists of $2,251,261 of unamortized value relating to the derivative instrument as well as $442,380 in transactions costs. During the three and nine months ended September 30, 2012 transaction costs of $42,498 and $331,136 respectively were recognized and charged to earning through finance costs. The Company recorded accretion on the long term derivative instrument for the three and nine months ended September 30, 2012 of $220,784 and $312,409 respectively were recognized and charged to earning through finance costs.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares, without par value

b) Common shares issued

	Number of shares		Amount
Balance January 1, 2011	77,283,530	$	146,047,511
Private placement - common shares	5,058,800		2,149,990
Fair value of warrants issued	-		(890,204)
Exercise of warrants	1,359,935		1,014,827
Ascribed value of warrants exercised	-		350,434
Issued on business combination	8,000,000		2,800,000
Rights offering	224,999,993		13,500,000
Share issue costs	-		(1,745,198)
Balance at September 30, 2012 and December 31, 2011	**316,702,258**	**$**	**163,227,360**

c) Warrants

A summary of activity and outstanding warrants as at September 30, 2012 is as follows:

	Number of warrants		Amount
Balance January 1, 2011	4,285,362	$	721,015
Exercise of warrants	(1,359,949)		(350,434)
Granted, private placement	5,058,800		890,204
Expired	(2,925,413)		(370,581)
Balance at December 31, 2011	**5,058,800**	**$**	**890,204**
Granted	1,000,000		51,696
Balance at September 30, 2012	**6,058,800**	**$**	**941,900**

During the three months ended June 30, 2012 1,000,000 warrants, with an exercise price of $0.17, were issued as a part of the loan received from Yorkville (Note 6). The fair value of these warrants were valued using the Black-Scholes option pricing model and the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 155.2%, risk-free interest rate of 1.02%, forfeiture rate of 0%, and an expected life of 1 year.

Details of the warrants outstanding as at September 30, 2012 are as follows:

Expiry date		Exercise price	Number of warrants		Fair Value of warrants
October 13, 2012	$	0.20	4,954,080	$	871,776
October 13, 2012	$	0.50	104,720		18,428
May 16, 2013	$	0.17	1,000,000		51,696
	$	**0.20**	**6,058,800**	**$**	**941,900**

See Subsequent Events (Note 17) for further information on extension of warrants set to expire on October 13, 2012.

d) Stock-based compensation

The Company has granted options for the purchase of common shares to its directors, officers, and employees. The aggregate number of shares that may be issuable pursuant to options granted under the Stock Option Plan will not exceed 10% of the issued common shares of the Company at the date of grant. No more than 5% of the issued shares of the Company may be granted to any one optionee. The options are non-transferable and non-assignable and may be granted for a term not exceeding ten years and will be determined by the Board on each grant date. The exercise price of the options may not be less than the greater of $0.10 and the market price, subject to all applicable regulatory requirements.

The following table depicts the stock option transactions during the period:

	Number of stock options		Weighted average exercise price
Balance January 1, 2011	3,506,576	$	0.90
Granted	60,000		1.38
Balance December 31, 2011	3,566,576	$	0.91
Granted	17,387,500		0.10
Expired/forfeited	(3,095,223)		(0.47)
Balance at September 30, 2012	**17,858,853**	**$**	**0.16**

The fair value of the options granted in 2012 was determined using the Black-Scholes option pricing model and the following weighted average assumptions: expected dividend yield of 0%, expected volatility of 155.9%, risk-free interest rate of 1.36%, forfeiture rate of 5%, and an expected life of 5 years. Terms for vesting rules are approved by the Board of Directors on each grant and 2012 and 2011 options were granted with vesting terms of one quarter on grant and in three equal portions on the following 6, 12 and 18 months.

During the three and nine months ended September 30, 2012, the Company recorded $140,498 and $983,421 respectively related to stock based compensation (September 30, 2011 - $91,830 and $491,050).

As at September 30, 2012, the following stock options are outstanding:

Exercise Price	Options Outstanding	Remaining Life (Years)	Options Exercisable
$1.25	373,109	1.97	373109
$1.25	750,000	3.23	750,000
$0.50	248,244	1.97	248,244
$0.50	750,000	3.23	750,000
$0.10	15,737,500	4.29	7,868,750
$0.16	**17,858,853**	**4.12**	**9,990,103**

e) Contributed surplus

		Amount
Balance Janaury 1, 2011	$	20,618,329
Stock-based compensation		575,638
Expired warrants		370,581
Balance at December 31, 2011	$	21,564,548
Stock-based compensation		983,422
Balance September 30, 2012	**$**	**22,547,970**

9. SHARE PURCHASE AGREEMENT

In May 2012 the Company signed final agreements with YA Global Master SPV Ltd (“YA Global”), which is advised by Yorkville, including a Loan Agreement for up to CAD $5.0 million (Note 6), and a Share Purchase Agreement (“SPA”) for up to NOK 100 million (approximately CAD $17.2 million).

Pursuant to the proposed terms of the SPA, the Company has the discretion to withdraw funds in tranches up to a total of NOK 100 million over a period of 36 months. At the request of the Company YA Global will, subject to a number of conditions as set out in the SPA, be obligated to purchase ordinary shares at a discount of 5% to the average of the lowest volume weighted average share price of the Company during four consecutive 10 day forward pricing period. Alternatively the Company may elect a backward pricing period whereby YA Global will purchase shares at a 10% discount to the lowest volume weighted average share price of the Company during a 5 day backward pricing period. The Company has prepared and filed a Shelf Prospectus in Canada to facilitate the issuance of new shares under the SPA and will announce each individual drawdown.

Completion of these financing agreements (SPA and the Loan Agreement) was a condition precedent of the previously announced Senior Secured Convertible Bond that is scheduled for settlement on May 22nd.

In October 2012 the Company revised the SPA with YA Global that was previously announced in May 2012 to reflect changes requested by the Alberta Securities Commission ("ASC") following discussions over the last few months of their review of the terms of the SPA and the preliminary Shelf Prospectus.

Pursuant to the terms of the revised SPA, the Company still has the discretion to withdraw funds in tranches up to a total of NOK 100 million over a period of 36 months. At the request of the Company YA Global will still, subject to a number of conditions as set out in the SPA, be obligated to purchase ordinary shares at a discount of 5% to the average of the lowest volume weighted average share price of the Company. However the revised agreement specifies a forward pricing period of 5 days compared to the previous period of 40 days. The facility for a backward pricing period has been removed.

The Company has revised and re-filed the preliminary Shelf Prospectus in Canada that has to be approved by the ASC so that the Company can issue freely tradable shares to YA Global under the SPA. If the Company elects to issue shares without the approval of the Shelf Prospectus then the issued shares will be subject to a 4 month hold period. In addition the Company is still seeking approval from the ASC for exemptive relief from certain prospectus requirements in connection with the SPA. The Company will make a separate announcement at the start of a drawdown pricing period when the SPA is utilised. (See Note 17 Subsequent Events for further information on the SPA).

10. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Accretion on asset retirement obligation	**$ 15,179**	$ 101,273	**$ 66,448**	$ 161,804
Interest on loan payable (Note 6)	**27,769**		**39,769**	-
Accretion of long term debt (Note 7)	**220,784**	-	**312,409**	-
Interest expense on convertible bond (Note 7)	**311,528**	-	**442,927**	-
Recognition of transaction costs (Note 7)	**42,498**	-	**331,136**	-
Interest accrued on payable to Questerre	**-**	-	**-**	413,367
Penalties and interest	**10,477**	-	**35,477**	-
Bank charges and other interest expense	**6,589**	1,350	**14,210**	19,039
	$ 634,824	$ 102,623	**$ 1,242,376**	$ 594,210

11. OPERATING EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Salaries, consulting fees and employee expenses	**$ 195,202**	$ 225,631	**$ 715,829**	$ 386,909
Equipment repairs, maintenance and rentals	**62,631**	119,848	**213,292**	157,789
Travel, camp groceries and supplies	**53,979**	106,817	**129,261**	147,965
Fluids, chemicals and fuel	**42,949**	32,034	**219,355**	133,060
Taxes, levies, licenses and permits	**31,802**	69,479	**130,176**	83,457
Insurance	**26,772**	-	**26,772**	-
Miscellaneous	**1,823**	19,514	**16,158**	20,827
	$ 415,158	$ **573,323**	**$ 1,450,843**	$ 930,007

Operating expenses relate entirely to the Beaver River operations in Canada. On June 1, 2011 the Company acquired an additional 50% interest in the property becoming the sole owner. Prior to June 1, 2011 the Company had a 50% interest and as such the comparatives above reflect different ownership percentages.

12. GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of significant cost categories in general and administrative expense is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Salaries, consulting fees and employee expenses	**$ 233,046**	$ 191,266	**$ 617,310**	$ 437,641
Officer and director fees	**102,562**	117,098	**366,071**	432,873
Travel, accommodation and conferences	**30,486**	85,908	**136,550**	157,471
Office, rent, computer and supplies	**57,787**	26,652	**186,890**	150,448
Audit, tax and legal	**70,621**	519,793	**520,358**	844,203
Insurance	**55,091**	59,121	**92,840**	186,715
Filing, transfer agent and stock exchange fees	**45,226**	137,306	**302,543**	289,422
Website, advertising and investor relations	**13,389**	64,188	**53,211**	99,473
Taxes	**70,419**	-	**89,178**	-
	$ 678,627	$ 1,201,332	**$ 2,364,951**	$ 2,598,246

13. GAIN ON SALE

Papua New Guinea back in right

During the period ended the Company closed a transaction with Eaglewood to cancel the Company's back-in option for 10% of Eaglewood's licenses in Papua New Guinea, in exchange for a cash settlement from Eaglewood of USD $800,000 (CAD $802,166) The Company had a nil carrying value and as such proceeds and gain on sale are equal.

During the period ended March 31, 2011 the Company sold its remaining 371,430 Eaglewood common shares for aggregate proceeds of $267,430 resulting in a realized gain of $145,383.

14. NET INCOME/LOSS PER SHARE

The number of shares used to calculate the basic and diluted net income per share for the three and nine months ended September 30, 2012 includes the weighted average number of Transeuro's common shares outstanding of 316,702,258 (September 30, 2011 – 86,338,814 and 84,352,628 respectively). For the period ended September 30, 2012, 17,858.853 options and 6,058,800 warrants were excluded from calculating dilutive loss per share as they were anti-dilutive (September 30, 2011 – 5,058,800 warrants and 3,566,576 options).

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the changes in non-cash working capital:

	September 30, 2012	September 30, 2011
Changes in non-cash working capital		
Accounts receivable	$ 8,628	$ (810,619)
Prepaid expenses and deposits	71,241	(96,746)
Accounts payable and accrued liabilities	(3,260,064)	(956,484)
Foreign exchange	27,071	-
	$ (3,153,124)	$ (1,863,849)
Operating activities	$ (2,304,396)	$ (4,356,939)
Financing activities	442,927	-
Investing activities	(1,291,655)	2,493,090
	$ (3,153,124)	$ (1,863,849)

16. COMMITMENTS AND CONTINGENCIES

Ukraine

The Company's three assets in Ukraine may not be retained if the financial and activity commitments required under the license agreements, which may be amended by mutual agreement, are not fulfilled, or if the Company fails to renegotiate the Joint Activity Agreements. Historically, the Company and the partner to the Joint Activity Agreement ("JAA") and the government authorities have agreed on annual work programmes for the JAA and license agreements that do not fulfill the overall license requirements due to actual exploration results, improved exploration planning and/or other factors. The Company continues to meet with its JAA partner and government authorities to ensure the licenses and associated work programmes are agreed to and to keep the licenses in good standing. The aggregate work commitments under the licenses will need to be met by the end of the license term, unless agreed to by all parties.

If the Company is unsuccessful in keeping its licenses in good standing due to lack of funds or is impacted by other factors beyond the control of the Company, this would adversely impact operations in Ukraine or result in the impairment of the oil and gas properties in the future; such impairment would be material (Note 2).

On September 24, 2009, the Company signed a final and binding agreement with Rohol-Aufsuchungs Aktiengesellschaft ("RAG") to settle a dispute pertaining to RAG's notice of withdrawal from the joint venture company "Scythian Energy BV" ("Scythian"). Under the terms of the agreement, RAG retains an option to acquire 12.5% of the shares of Scythian for $nil until such time as USD $70 million is invested in the Ukraine assets. The option is backed by a pledge by the Company on 12.5% of Scythian shares in favor of RAG.

Karlavskoye

The Karlavskoye license expires, subject to any extensions, on July 14, 2014 and under the terms of the license, the required work programme is to drill three deep exploration wells, two shallow wells and acquired 3D seismic by the end of 2012. Of these activities only one deep well will be completed, and the Company will have invested 61% of the required US$27 million financial commitment. The JAA work programme has annual commitments and in 2012 the Company has completed 100% of the required $4.1 million and has completed the hydraulic fracturing, but not the 3D seismic.
The parties to the JAA and the government authorities have agreed a revised work programme for 2012 and the remainder of the license commitment although discussions to refine the work programme are continuing. In addition, the Company is currently negotiating with the government authorities to ratify and amend the Company's JAA.

Krasnapolianskoye

The Krasnapolianskoye license expired on November 21, 2012 and the government partner has applied to renew the license. Under the terms of the license, the Company was required to drill one deep and one shallow well and to commence production from the two existing shallow wells. The Company did not complete any of these activities. The JAA work commitments have not been met and the Company advises that the License held by the JAA partner may not be renewed for a further term.

Povorotnoye

The Povorotnoye license expires, subject to any extensions, on May 14, 2016. Under the terms of the license extension, the license requires commencing in 2012 the drilling and testing of one well for minimum investment of $12.5 million and commencing a seismic programme of $5 million and other exploration and development procedures. The Company completed a sale of 85% of the holding Company related to this license (Note 4), and as such, the purchaser has assumed all funding and operating commitments subject to the terms of the sale agreement in 2012 and beyond. The drilling is expected to commence in Feburary 2013.

Office Rent

As at September 30, 2012 the Company has one lease for office space in Canada. This lease relates to the Calgary office and expires on December 31, 2012. The total remaining minimum lease payments under this lease $18,090.

The Company also has two leases in the Ukraine one is for office space and the second is a warehouse which expires December 31, 2012 and July 31, 2013 respectively. The total minimum lease payments and estimated operating costs remaining for these facilities is approximately $25,000.

17. SUBSEQUENT EVENTS

Warrant Extension

In October, 2012 the Company received approval from the TSX Venture Exchange to extend the expiry date of 5,058,800 warrants issued to placees pursuant to a financing of the Company which closed on January 13, 2011. The expiry date of the warrants was originally April 13, 2012 and previously extended to October 13, 2012. The Company's approval extends the expiry date to April 13, 2013.

The exercise price of the warrants will remain at $0.20, except for 104,720 warrants issued to insiders of the Company which will remain at $0.50. Each warrant, when exercised, will be exchangeable for one common share of the Company. The warrant amendment remains subject to the approval of the Exchange.

Revised Share Purchase Agreement

On October 11, 2012 the Company announced that the Company has revised the SPA with Yorkville that was previously announced in May, 2012 to reflect changes requested by the Alberta Securities Commission following discussions with respect to their review of the terms of the SPA and the preliminary Shelf Prospectus.

Pursuant to the terms of the revised SPA, the Company still has the discretion to withdraw funds in tranches up to a total of NOK 100 million over a period of 36 months. At the request of the Company Yorkville will still, subject to a number of conditions as set out in the SPA, be obligated to purchase ordinary shares at a discount of 5% to the average of the lowest volume weighted average share price of the Company. However the revised agreement specifies a forward pricing period of 5 days compared to the previous period of 40 days. The facility for a backward pricing period has been removed.

The Company has not received approval from the ASC for the proposed shelf prospectus and exemptive relief that is required to issue freely tradable shares to YA Global under the SPA, and has applied to the TSX Venture Exchange to issue shares without a Shelf Prospectus that will be subject to a 4 month hold period.

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