Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2011

(In United States Dollars)

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In United States Dollars)

($ Thousands)		As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
			(Note 19.3)	(Note 19.1)
Assets				
Current Assets				
Cash and cash equivalents	(Note 5)	36,328	47,977	1,326
Short term investments	(Note 6)	9,779	-	-
Trade receivables	(Note 7)	6,956	3,373	-
Receivable from related party	(Note 9)	4,143	2,727	85
Other receivable		146	-	-
Prepaid expenses, deposits and other		1,721	273	33
		59,073	54,350	1,444
Non-Current Assets				
Investments		291	291	326
Deferred tax asset		2,334	1,588	-
Property and equipment	(Note 8)	1,297	1,087	8
		62,995	57,316	1,778
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	(Note 10)	2,524	2,278	94
Payable to related party	(Note 9)	2,677	2,361	-
Notes payable	(Note 9)	4,995	-	-
Warrants	(Note 11)	2,568	2,219	-
		12,764	6,858	94
Shareholders' Equity	(Note 12)			
Common stock / membership units		15	15	4,255
Paid in capital		56,647	56,526	-
Contributed surplus		1,834	1,361	-
Deficit		(8,276)	(7,445)	(2,576)
Accumulated other comprehensive income (loss)		10	-	-
Total Shareholders' Equity		50,230	50,457	1,679
Non-controlling interest		1	1	5
Total Equity		50,231	50,458	1,684
		62,995	57,316	1,778

See accompanying Notes to Condensed Consolidated Financial Statements

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

(signed) "Michael J. Hibberd"
Michael J. Hibberd
Director

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS

(Unaudited)
(In United States Dollars)

($ Thousands, except per share amounts)	Three Months Ended March 31, 2011	2010 (Note 19.4)
Revenues		
Petroleum and natural gas	5,618	-
Transportation and storage fees	762	-
Management service fees	59	251
	6,439	251
Expenses		
Operating	3,895	-
Transportation	151	-
Administrative	3,054	1,248
Depreciation and amortization	20	1
	7,120	1,249
Loss from operating activities	(681)	(998)
Dividends, interest and other income	(52)	-
Loss on investments	-	217
Change in fair value of warrants	362	55
Loss before income taxes and non-controlling interest	(991)	(1,270)
Income tax recovery	(160)	(129)
Net loss	(831)	(1,141)
Income attributable to non-controlling interest	-	25
Net loss attributable to shareholders of Greenfields Petroleum Corporation	(831)	(1,166)
Per share		
Net loss per share, basic & diluted (Note 12)	($0.06)	($0.16)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)
(In United States Dollars)

($ Thousands)	Three Months Ended March 31, 2011	2010
Net loss	(831)	(1,141)
Unrealized gain on short term investments	15	-
Income tax recovery	(5)	-
	10	-
Comprehensive loss (1)	(821)	(1,141)

See accompanying Notes to Condensed Consolidated Financial Statements

1 For the three months ended March 31, 2011, the portion of comprehensive loss attributable to the shareholders of Greenfields Petroleum Corporation is ($821) thousand and $nil to the non-controlling interest totaling ($821) thousand Comprehensive Loss. For the same period 2010, the portion of comprehensive loss attributable to the shareholders of Greenfields Petroleum Corporation is ($1.166) million and income of $25 thousand to the non-controlling interest totaling ($1.141) million Comprehensive Loss.

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(In United States Dollars)

($ Thousands)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months from April 1 to December 31, 2010
		(Note 19.6)	(Note 19.7)
Membership units			
Balance, Beginning of period	-	4,255	-
Issued per long term incentive plan	-	330	-
Value of unvested restricted units	-	(176)	-
Distribution to unitholders	-	(4)	-
	-	4,405	-
Cancellation of membership units	-	(4,405)	-
Balance, End of Period	-	-	-
Common stock			
Balance, Beginning of period	15	-	8
Common shares issued upon conversion	-	7	-
Issued pursuant to private placements	-	1	2
Issued pursuant to public offering	-	-	5
Balance, End of Period	15	8	15
Paid in Capital			
Balance, Beginning of period	56,526	-	7,749
Common shares issued upon conversion	-	4,399	-
Issued pursuant to private placements	5	3,486	12,509
Issued pursuant to public offering	-	-	40,426
Repurchase of common shares (Note 9)	(208)	-	(21)
Share issue costs	(50)	(345)	(4,242)
Private placement broker commission	-	209	-
Warrant exercise	22	-	37
Stock-based compensation	15	-	59
Excess tax benefit - share grants	337	-	9
Balance, End of Period	56,647	7,749	56,526
Contributed Surplus			
Balance, Beginning of period	1,361	-	-
Stock-based compensation	473	-	1,361
Balance, End of Period	1,834	-	1,361
Deficit			
Balance, Beginning of period	(7,445)	(2,576)	(3,742)
Net loss	(831)	(1,166)	(3,703)
Balance, End of Period	(8,276)	(3,742)	(7,445)
Accumulated Other Comprehensive Income			
Balance, Beginning of period	-	-	-
Unrealized gain on short term investments	10	-	-
Balance, End of Period	10	-	-
Total Shareholders' Equity	50,230	4,015	50,457
Non-controlling Interest			
Balance, Beginning of period	1	5	30
Change	-	25	(29)
Total Non-controlling Interest	1	30	1
Total Equity	50,231	4,045	50,458

See accompanying Notes to Condensed Consolidated Financial Statements

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In United States Dollars)

($ Thousands)	Three Months Ended March 31, 2011	2010
		(Note 19.9)
Operating activities		
Net loss	(831)	(1,166)
Items not affecting cash:		
Stock-based compensation	487	154
Depreciation and amortization	20	1
Dividends, interest, and other income	(52)	-
Loss on investment	-	217
Non-controlling interest	-	25
Income tax recovery - loss from operations	(160)	(129)
Other deferred income tax changes	(254)	-
Excess tax benefit – share grant compensation	(337)	-
Change in fair value of warrants	362	55
	(765)	(843)
Change in non-cash operating working capital (Note 15)	(5,995)	296
	(6,760)	(547)
Dividends and interest received from short term investments	48	-
Cash Used in Operating Activities	(6,712)	(547)
Financing activities		
Proceeds from issue of common shares	15	4,734
Share issue costs	(50)	(127)
Distributions paid to unitholders	-	(4)
Repurchase of common shares	(208)	-
Proceeds from notes payable	4,995	-
Excess tax benefit – share grant compensation	337	-
Cash From Financing Activities	5,089	4,603
Investing activities		
Property and equipment	(230)	(20)
Investments	(9,796)	-
Cash Used in Investing Activities	(10,026)	(20)
Increase (Decrease) in Cash and Cash Equivalents	(11,649)	4,036
Cash and Cash Equivalents, Beginning of Period	47,977	1,326
Cash and Cash Equivalents, End of Period (Note 5)	36,328	5,362

See accompanying Notes to Condensed Consolidated Financial Statements

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation (the "**Company**"), was incorporated in the State of Delaware, USA, on February 19, 2010. The address of its registered office is 211 Highland Cross Blvd., Suite 227, Houston, Texas 77073. The Company's common shares are listed on the TSX – Venture Exchange under the symbol "GNF.S.". The Company's predecessor was originally incorporated in Texas in 2007.

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**").

Greenfields Petroleum, LLC was originally incorporated under the laws of the State of Texas as Greenfields Petroleum, Inc. on November 28, 2007, and subsequently converted to Greenfields Petroleum, LLC on April 4, 2008, a State of Texas Limited Liability Company. On February 19, 2010, the Company converted to an incorporated Company registered in the State of Delaware and concurrently changed its name to Greenfields Petroleum Corporation (the "**Company**"). 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**").

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

For the first three years of the ERDPSA, 5% of the production (referred to as "Compensatory Production") is delivered to SOCAR. In year four, the percentage increases to 10% of production until the cumulative Compensatory Production delivered equals a specified target amount for oil and for natural gas, calculated separately.

On April 27, 2010, the Azerbaijan Parliament, also referred to as Milli Mejlis, ratified the ERDPSA with SOCAR and its affiliate SOA. On September 29, 2010, the Company was notified by SOCAR that all conditions precedent of the ERDPSA were satisfied and the ERDPSA became effective on October 1, 2010.

Upon assuming control of operations on October 1, 2010, Bahar Energy was required to complete and submit to SOCAR within 90 days the draft rehabilitation and production plan for the Bahar and Gum Deniz fields. The plan, referred to as the "Rehabilitation and Production Programme", was submitted to SOCAR in late December. Under the ERDPSA, Bahar Energy will have the obligation to achieve, not later than three (3) years from the date of SOCAR's approval of the "Rehabilitation and Production Programme", an average daily rate of petroleum production from the contract rehabilitation area during ninety (90) consecutive days 150% of the average 2008 production rates. Meeting the 150% production rate will result in the realization of the full 25 year term of the agreement for the Contract Rehabilitation Area.

In addition to the 150% production levels for continuance of the ERDPSA for the 25 year term, Bahar Energy is obligated to carry SOA's 20% share of expenditures in the rehabilitation area until production rates are two times the 2008 production rates at which time SOA becomes fully responsible for funding

their share of expenditures. The SOA carry for the rehabilitation area is reimbursed out of SOA's share of entitlement petroleum or revenues currently produced from the rehabilitation area. Any unrecovered balance is carried forward from one period to the next. Since the carried costs are reimbursed from current petroleum production and the revenues they create, the impact on Bahar Energy's cash flows are not materially affected.

The Company's principal business activity is in the country of Azerbaijan. Laws and regulations affecting businesses operating in Azerbaijan are subject to rapid changes and the Company's assets and operations could be at risk in the event of negative changes in the political and business environment.

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). Previously, the Company prepared its annual and interim consolidated financial statements in accordance with Canadian generally accepted accounting principles then applicable to publicly accountable enterprises ("**GAAP**"). As these interim condensed consolidated financial statements present the Company's initial financial results of operations and financial position under IFRS as at and for the three months ended March 31, 2011, including 2010 comparative periods, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting". These interim condensed consolidated financial statements are unaudited and do not include all the necessary annual disclosures in accordance with IFRS; therefore, they should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, which have been prepared in accordance with GAAP.

The preparation of these interim condensed consolidated financial statements resulted in changes to accounting policies as compared with the most recent annual consolidated financial statements prepared in accordance with GAAP. The accounting policies set out in Note 3 have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the transition from GAAP to IFRS is presented in Note 19.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and outstanding as of June 28, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect to in the Company's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim condensed financial statements, including the transition adjustments described in Note 19.

These interim condensed consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities measured at fair value through the Consolidated Statements of Net Loss and the Consolidated Statements of Comprehensive Loss.

The presentation and functional currency of the Company is the United States dollar.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and its proportionate share of the accounts of joint ventures. Investments in companies in which the Company maintains control are consolidated in these financial statements. The equity in the subsidiary that is not attributable to the Company is presented in equity as non-controlling interest. All inter-company transactions and balances have been eliminated.

Investments in companies

Investments in affiliated companies over which the Company does not have control, but exercises significant influence, are accounted for on an equity basis. The carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition income of the investee, computed using the consolidation method, and is reduced by profit distributions received or receivable from the investee. The Company discontinues the use of the equity method from the date when it ceases to have significant influence over an investment and accounts for the investment as a financial instrument, subsidiary or a joint venture as appropriate.

Investments in companies in which the Company does not maintain significant influence or joint control are accounted for on the cost basis.

Critical judgments and estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the years presented. Such estimates relate primarily to unsettled transactions and events as of the date of the interim condensed consolidated financial statements.

In particular, the amounts recorded for depletion and depreciation of property and equipment, the provision for asset retirement obligations ("**ARO**") and the test for impairment and impairment reversals of property and equipment are based on estimates of oil production rates, commodity prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the interim condensed consolidated financial statements of changes in such estimates could be significant.

Compensation costs recorded for the stock option plan as well as the fair value measurement of the warrants are subject to estimation as they are calculated using the Black-Scholes option pricing model which is based on significant assumptions such as volatility, dividend yield, expected term and forfeiture rate.

The measurement of income tax expense and the related provisions on the interim consolidated balance sheets is subject to uncertainty associated with future recoverability of oil and natural gas reserves, commodity prices, the timing of future events and changes in legislation, tax rates and interpretations by tax authorities.

Actual results could differ from these estimates and the differences could be material. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Cash and cash equivalents

Cash and cash equivalents include investments and deposits with a maturity of three months or less when purchased.

Accounts receivable

Accounts receivable are recorded based on the Company's revenue recognition policy. The allowance for doubtful accounts provides for specific doubtful receivables, as well as general counterparty credit risk evaluated using observable market information and internal assessments.

Exploration and evaluation assets ("E&E")

Oil and gas exploration, development and production costs are accounted for using the successful efforts method. As such, pre-license costs, geological and geophysical costs, lease rentals of undeveloped properties and dry hole and bottom hole contributions are charged to expense when incurred.

All other E&E costs are capitalized, including the cost of acquiring unproved properties and the costs associated with drilling exploratory wells. When proved reserves are determined, the relevant expenditure is tested for potential impairment and then transferred to property and equipment. However, if commercial reserves have not been found, the capitalized costs are charged to expense after the conclusion of appraisal activities. Exploration well costs for which sufficient reserves have been found to justify commercial production, but for which those reserves cannot be classified as proved, continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. When this is no longer the case, the costs are written off.

Property and equipment ("P&E")

P&E is stated at cost less accumulated depreciation and impairment losses and includes transfers of commercially viable and technically feasible E&E assets, oil and gas development and production assets and Company assets. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning liability and capitalized borrowing costs for qualifying assets.

Major replacements are capitalized if it is probable that future economic benefits associated with the item will flow to the Company; the replaced asset is derecognized. Repairs and maintenance costs are charged as an expense when incurred.

Depreciation and amortization

Capitalized costs of oil and gas properties are depleted using the unit of production method; acquisition costs of properties are amortized over the Company's best estimate of recoverable proved reserves. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of six thousand cubic feet of natural gas for one barrel of oil. To the extent significant development costs are incurred in connection with proved undeveloped reserves, such costs are excluded from depletion until the reserves are developed and the assets are ready for their intended use. Company assets are depreciated on a straight-line basis over their estimated service lives. E&E assets are not amortized.

Impairment

Financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired except those at fair value through profit or loss. If evidence exists, the measurement of impairment is dependent on the type of financial asset under review.

The impairment of unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets; this impairment loss cannot be reversed.

The impairment of assets carried at amortized cost is measured as the difference between the assets carrying amount and the present value of future cash flows discounted at the original effective interest rate. This impairment loss can be reversed if the decrease in impairment can be related objectively to an event occurring after the impairment was recognized.

Non-financial assets

Non-financial assets are assessed for indications of impairment or reversals of previous impairments at the end of each reporting period. If any indication of impairments exists, the recoverable amount of the assets is estimated and, if the carrying amount exceeds the recoverable amount, an impairment loss is recognized for the difference. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no transactions can be identified, an appropriate valuation model is used.

Impairment is measured for individual assets unless the asset does not generate separately identifiable cash inflows, in which case it is measured for the cash-generating unit ("CGU") that the asset belongs to. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

E&E assets are tested for impairment when indicators of impairment exist or when technical feasibility and commercial viability are established and the assets are reclassified to P&E. E&E assets are allocated to related CGUs when they are assessed for impairment, but the group of CGUs cannot exceed the operating segment. E&E assets that are determined not to be technically feasible and commercially viable are charged to net income.

A previously recognized impairment loss (on assets other than goodwill) is reversed to the extent that the events or circumstances that triggered the original impairment have changed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, or exceed the carrying amount that would have been determined, net of depreciation, depletion and amortization ("**DD&A**"), had no impairment loss been recognized for the asset in prior years.

Share-based payments

Share-based payment costs attributed to all stock options granted to employees, directors and service providers are measured at fair value at the date of grant using the Black-Scholes option pricing model and expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of stock options, the consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to common stock and paid in capital.

Income taxes

Income tax is recognized in net income except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity.

The Company uses the liability method to account for income taxes. Under this method, future income taxes are based on the difference between assets and liabilities reported for financial accounting purposes from those reported for income tax. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Deferred income tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. Deferred tax assets and tax liabilities are offset to the extent there is a legal right to settle on a net basis.

The Company's contractual arrangements in foreign jurisdictions stipulate that income taxes are paid by the respective government out of its entitlement share of production sharing petroleum. Such amounts are included in income tax expense at the statutory rate in effect at the time of production.

Revenue recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when title passes from the Company to its customer. Crude oil, condensate and natural gas produced and sold by the Company below or above its entitlement share in the related resource properties results in production underliftings or overliftings. Underliftings are recorded as inventory and overliftings are recorded as deferred revenue.

Revenue represents the Company's share of entitlement pursuant to the ERDPSA with SOCAR and does not include the government's share of profit sharing petroleum.

BEOC sells natural gas under a contract which includes clauses for Minimum Annual Quantity ("**MAQ**") and Minimum Payment Price ("**MPP**"). Together the articles stipulate when the buyer does not take the MAQ volumes, it will pay for the shortfall volumes at the MPP and it has twenty-four months to make-up the volumes and pay the difference between the contract price and the MPP or after twenty-four months buyer forfeits rights to the undelivered gas and the MPP paid for those volumes. The Company initially recognizes undelivered natural gas volumes as a deferred credit at the MPP value until which time the buyer either settles and revenue is recorded at the contract price or after twenty-four months the buyer forfeits rights in the undelivered gas and revenue is recorded at the MPP.

Transportation fees represent revenue for hydrocarbon volumes transported by the Company for another producer who requires pipeline access to oil markets. Storage fees represent revenue for storing, handling and other processing for the same previously mentioned producer who lacks his own field facilities. The transportation and storage fees are recognized on a monthly basis when earned and when ultimate collection is reasonably assured.

Management service fees represent revenue for administrative, operational and technical support provided to a legal entity in which the Company has an equity investment and to the purchaser of assets previously held by the Company. The management fees are recognized on a monthly basis when earned and when ultimate collection is reasonably assured.

Interest income is recognized as earned, over the term of the investment.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by recognizing the present value of the estimated future cash flows, discounted using a risk-free rate.

The Company, under the ERDPSA is responsible for the direct funding of an ARO for the assets managed under the agreement into an Abandonment Fund. However, such obligation does not accrue (or is not effective) until such time the Contractors and SOCAR have agreed to the mechanism of funding. Under the ERDPSA, within twelve (12) months following the effective date (October 1, 2010), the Contractors and SOCAR must agree and accept the mechanism for making contributions to an Abandonment Fund for the Contract Rehabilitation Area.

Once the funding mechanisms have been agreed upon and the obligation can be determined, the Company will record expenses associated with recognizing the obligations as they become contractually due. The Company has no further abandonment obligations under the ERDPSA other than to fund its share of Abandonment Fund contributions. As at March 31, 2011, no abandonment obligation existed under the ERDPSA.

Carried interest

The Company conducts certain international operations jointly with foreign governments in accordance with production-sharing agreements pursuant to which proved reserves are recognized using the economic interest method. Under these agreements, the Company pays both its share and the government's share of operating and capital costs. The Company recovers the government's share of these costs from future revenues or production over several years. The government's share of operating costs is included in operating expense when incurred, and capital costs are included in P&E and expensed to DD&A in the period recovered. All recoveries are recorded as revenue in the period of recovery.

Leases

The Company classifies leases entered into as either finance or operating leases. Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as finance leases, which are capitalized and are amortized on a straight-line basis over the period of expected use. Rental payments under operating leases are expensed as incurred.

Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of in-the-money stock options and warrant would be used to purchase common shares at the average market price during the period.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories:

- fair value through profit or loss ("**FVTPL**")
- loans and receivables
- held-to-maturity investments
- available for-sale financial assets or
- other financial liabilities

Subsequent measurement of the financial instruments is based on their initial classification. Financial assets and financial liabilities at fair value through profit or loss are either classified as FVTPL or "designated at fair value through profit or loss" and are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are measured at amortized cost using the effective interest rate method.

Transaction costs related to financial assets and liabilities at fair value through profit or loss are recognized in profit and loss; all other transaction costs are added to the fair value of the associated financial instrument on initial recognition.

Derivative instruments are carried at fair value and reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments or contractual arrangements. Derivatives embedded in other instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a free standing derivative and the combined contract is not held for trading. When the Company is unable to measure the fair value of the embedded derivative separately, the combined contract is treated as a financial asset or liability that is FVTPL and measured at fair value with changes therein recognized in the consolidated statement of income (loss).

Warrants

Warrants have an exercise price denominated in Canadian dollars while the Company's functional currency is U.S. dollars. As the amount of U.S. dollars that the Company will ultimately receive for each share issued is variable, the warrants must be classified as a financial liability at fair value through profit or loss. Accordingly, they are measured at fair value each balance sheet date using the Black-Scholes option pricing model with changes in fair value (including the foreign exchange impact) recognized in profit or loss.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) ("**OCI**"). OCI may include:

- gains and losses from the foreign exchange translation of net investments in foreign operations
- the effective portion of derivatives used as a hedging item in a cash flow hedge/net investment hedge
- "available-for-sale" financial instruments that are fair value measured

Accumulated other comprehensive income ("**AOCI**") is a separate component of shareholders' equity comprised of the cumulative amounts of OCI.

Foreign currency translation

The Company and its subsidiaries, joint ventures and partnerships have a United States ("US") dollar functional currency. Revenues and expenses are translated at estimated transaction date exchange rates except depletion and amortization expense, which is translated at the same historical rates as the related assets. Foreign currency denominated monetary assets and liabilities are translated at the year-end exchange rate. Foreign currency denominated non-monetary assets and liabilities are translated at their historical rate. Gain and losses arising from foreign currency translation are recognized in the consolidated statement of income (loss).

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of

that asset. Borrowing costs are capitalized by applying interest rates attributable to the project being financed and includes both general and specific borrowings. Interests rates applied from general borrowings are computed using the weighted average borrowing rate for the period.

Measurement Uncertainty

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the periods presented.

Key areas where management has made complex or subjective judgments include asset retirement obligations, assessment of impairments and deferred taxes. Actual results could differ from these and other estimates.

4. FUTURE ACCOUNTING CHANGES

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective as of June 28, 2011.

IFRS 9 “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The standard is required to be adopted for periods beginning January 1, 2013. The adoption of this standard should not have a material impact on the Company’s consolidated financial statements.

IFRS 13 “Fair Value Measurement” will improve consistency and reduce complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard is required to be adopted for periods beginning January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the standard or whether it will adopt the standard early.

IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Involvement with Other Entities”; as well as revisions to IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates”. These standards are required to be adopted for periods beginning January 1, 2013 with early adoption permitted as long as all five standards are adopted at the same time. The Company has not yet assessed the impact of the standards or whether it will adopt the standards early.

IFRS 10 replaces the consolidation requirements in SIC-12 “Consolidation—Special Purpose Entities” and IAS 27 “Consolidated and Separate Financial Statements” and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method (equity method) to account for interests in most jointly controlled entities.

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

5. CASH AND CASH EQUIVALENTS

The Company periodically invests its idle cash in investments and deposits with maturity dates of less than three months. At March 31, 2011, the Company had a total of $30.2 million (December 31, 2010 - $ 40.0 million) invested in cash equivalents bearing a money market rate of interest.

At March 31, 2011, the Company also had $5.34 million (December 31, 2010 - $3.14 million) of cash in Bahar Energy, which is restricted for use in the rehabilitation and development activities of the ERDPSA project in Azerbaijan.

6. SHORT TERM INVESTMENTS

	March 31, 2011		December 31, 2010	
($ Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Corporate bonds	5,225	5,225	-	-
Income producing mutual funds	4,554	4,554	-	-
	9,779	9,779	-	-

The Company may periodically invest in investment grade corporate bonds and income producing equity instruments. At March 31, 2011, the Company had a total of $5.225 million (December 31, 2010 - $ nil) invested in BBB grade or better corporate bonds with maturities ranging from six (6) to thirty four (34) months and an average yield of 1.43%. Also at March 31, 2011, the Company had a total of $4.554 million (December 31, 2010 – $ nil) invested in income producing mutual funds currently generating an effective annualized yield of 3.69%.

Short term investments are recorded at their estimated fair value using quoted market prices which are either directly or indirectly observable at the reporting date.

7. TRADE RECEIVABLES

($ Thousands)	March 31, 2011	December 31, 2010
Petroleum	2,954	1,683
Natural Gas	3,240	1,690
Transportation and storage fees	762	-
	6,956	3,373

8. PROPERTY AND EQUIPMENT

($ Thousands)	Oil and Gas Properties	Corporate and Other	Total
Cost			
As at January 1, 2010	-	10	10
Additions	1,026	68	1,094
Transfers	-	-	-
Disposals & derecognitions	-	-	-
As at December 31, 2010	1,026	78	1,104
Additions	202	28	230
Transfers	-	-	-
Disposals & derecognitions	-	-	-
As at March 31, 2011	1,228	106	1,334
Accumulated DD&A			
As at January 1, 2010	-	2	2
Additions	3	12	15
Disposals & derecognitions	-	-	-
Impairment losses	-	-	-
As at December 31, 2010	3	14	17
Additions	11	9	20
Disposals & derecognitions	-	-	-
Impairment losses	-	-	-
As at March 31, 2011	14	23	37
Net Book Value			
As at January 1, 2010	-	8	8
As at December 31, 2010	1,023	64	1,087
As at March 31, 2011	1,214	83	1,297

9. RELATED PARTY TRANSACTIONS

Receivable from related party

At March 31, 2011, the Company had a balance of $4.143 million (December 31, 2010 - $2.727 million) in accounts receivable with Bahar Energy, an investee accounted for as a joint venture. Subsequent to March 31, 2011, the Company has received payment for $2.972 million of these receivables.

Payable to related party

At March 31, 2011, the Company had a $2.677 million (December 31, 2010 - $2.361 million) payable balance to certain shareholders of Bahar Energy for the funding of their share of pre-effective date petroleum operation expenses. Subsequent to March 31, 2011, $2.315 million was paid to Bahar Energy shareholders with respect to this liability.

Notes payable

At March 31, 2011, the Company, through its 33.33% interest in Bahar Energy, had a related party notes payable balance of $4.995 million (December 31, 2010 – $ nil) due to certain shareholders of Bahar Energy. The notes payable are the result of a Common Terms Agreement ("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. 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 is advanced under the Loan Agreement shall be applied to the approved Annual Work Program and Budget of the ERDPSA and for general corporate purposes as authorized by the shareholders of Bahar Energy. Interest will accumulate at the three month London Interbank Offer Rate ("LIBOR") quoted on a calendar quarter plus 4.5%, which the Company has deemed to be an appropriate commercial rate.

Loan repayment comes from the future cash flows of the ERDPSA that remain after retention by Bahar Energy of funds required for near term operations and adequate cash reserves.

Repurchase of common shares

During the three month period ended March 31, 2011, the Company repurchased 20,641 common shares at CDN$10.00 per share as a result of cashless vesting elections of share grants issued to certain employees on February 2, 2010 under a Long Term Incentive Plan ("LTIP"). The cashless vesting provision of the LTIP provides the option for the employees to sell to the Company the number of shares equal to their statutory withholding tax due at vesting date.

During the third quarter 2010, the Company repurchased 3,306 common shares at CDN$6.50 per share from a former executive officer who had elected the same cashless vesting option noted above.

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 to the share grant award. The tax withholding obligation of the participant in respect of the vesting share grants can be satisfied through the transfer to the Company of such number of shares with a fair market value at vesting date equal to the tax withholding obligation.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ Thousands)	March 31, 2011	December 31, 2010
Trade accounts payable	1,057	1,987
Accrued liabilities	1,213	291
Taxes payable	254	-
	2,524	2,278

11. WARRANTS

Continuity of Warrants

	Exercise Price	Warrants	US$000's Amount
Balance January 1, 2010		-	-
Warrants issued February 23, 2010 in private placement	CND$5.00	530,000	1,322
Fair Value Adjustment		-	55
Exercised		-	-
As at March 31, 2010		530,000	1,377
Fair Value Adjustment			853
Exercised		(5,000)	(11)
As at December 31, 2010		525,000	2,219
Fair Value Adjustment		-	362
Exercised		(3,000)	(13)
As at March 31, 2011		522,000	2,568

The initial value of the Canadian dollar denominated purchase warrants issued on February 24, 2010, was calculated using the Black-Scholes pricing model over the 24 month term of the warrant with a 0.87% interest rate based on 2 year term US treasuries and 104% volatility calculated on a composite of six TSX traded companies with similar company profiles. The fair value as at the measurement dates of March 31, 2011 and December 31, 2010, was calculated using the Black-Scholes pricing model with reassessed volatility of 50% along with term, interest rate, and exchange rate assumptions consistent with such measurement dates applied both over the warrant exercises and remaining net balances.

12. SHAREHOLDERS' EQUITY

Common Shares

Authorized share capital consists of 49,900,000 common shares and 100,000 preferred shares, each at US dollars $.001 par value. There were no preferred shares issued and outstanding at March31, 2011 (December 31, 2010 - nil: January 1, 2010 nil).

Reconciliation of Outstanding Shares	March 31, 2011	December 31, 2010
Issued	14,872,327	14,869,327
Treasury Stock *(See Note 9 "Related Party Transactions")*	(23,947)	(3,306)
Total Outstanding	14,848,380	14,866,021

Per Share Information

For the three months ended March 31, 2011, basic per share amounts are calculated using the weighted average number of common shares outstanding of 14,853,652 (2010 - 7,196,222).

As there is a loss for the periods ended March 31, 2011 and 2010, there is no difference between the basic and diluted earnings per share.

Potentially Dilutive Ordinary Shares	Three Months Ended March 31,	
	2011	2010
Warrants	522,000	530,000
Stock Options	1,241,000	-

At January 1, 2010, the Company had no dilutive securities outstanding.

13. SHARE BASED PAYMENTS

The Company has a stock option plan that governs the granting of options to employees, officers and directors. All options issued by the Company permit the holder to purchase a specific number of common shares of the Company at the stated exercise price. The Company has not issued stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of stock.

Continuity of Stock Options

	Three Months Ended March 31, 2011		Year Ended December 31, 2010	
	Number of shares underlying options	Average exercise price (CND$)	Number of shares underlying options	Average exercise price (CND$)
Outstanding, beginning of period	1,211,000	6.87	-	-
Granted	30,000	9.50	1,211,000	6.87
Exercised for common shares	-	-	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding, end of period	1,241,000	6.94	1,211,000	6.87
Exercisable, end of period	347,750	6.89	302,750	6.87

During the three month period ended March 31, 2011, the Company recorded share-based compensation expense of $473 thousand (2010 - $ nil), related to stock options.

The exercise price of the stock options ranges from CDN$6.50 to CDN$9.50 per common share with all options expiring on various dates between years 2020 and 2021. For the initial grant of 986,000 stock options, 25% vests on the date of grant and 25% on each of May 1, 2011, May 1, 2012 and May 1, 2013, except for stock options issued to a certain executive officer, which vest as to 25% on August 31, 2010 and 25% on each of the first, second and third anniversaries of February 1, 2010. For the second grant of 225,000 stock options, 25% vests on the date of the grant and 25% on each of the first, second and third anniversaries of November 1, 2011. For the third grant of 30,000 stock options, 25% vests on the date of the grant and 25% on each of the first, second and third anniversaries of March 14, 2011.

As a provision of the Company's Stock Option Plan, the optionee may make the following cashless exercise option at the discretion of the Compensation Committee:

When an optionee incurs tax liability in connection with an option which is subject to tax withholding under applicable tax laws and the optionee is obligated to pay the Company the required withholding amount due, the optionee may satisfy the tax withholding obligation in two cashless methods; (i) by surrendering to the Company common share(s) that have been owed by the optionee for more than six (6) months on the date of surrender with a market value equal to the withholding tax obligation or (ii) by electing to have the Company withhold from the common share(s) to be issued upon exercise of the option the number of common share(s) having a market value equal to the amount required to be withheld.

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate range	1.33% - 2%
Expected life	4.0 years
Expected volatility	49.53%
Expected dividend	-
Forfeiture	-
Fair value range of options at grant date	$2.42 - $3.76

14. SEGMENTED INFORMATION

The Company defines its reportable segments based on geographic locations.

($ thousands)	Three Months Ended March 31, 2011		
	Azerbaijan	United States	Total
Revenues			
Petroleum and natural gas	5,618	-	5,618
Transportation and storage fees	762	-	762
Management services fees	-	59	59
	6,380	59	6,439
Expenses			
Operating	3,895	-	3,895
Transportation	151	-	151
Administrative	370	2,684	3,054
Depreciation and amortization	11	9	20
	4,427	2,693	7,120
Income (loss) from operating activities	1,953	(2,634)	(681)
Dividends, interest and other income	-	(52)	(52)
Change in fair value of warrants	-	362	362
	1,953	(2,944)	(991)
Income tax expense (recovery)	685	(845)	(160)
Income (loss) from operations	1,268	(2,099)	(831)

The Company began its operations in Azerbaijan in the fourth quarter of 2010. Accordingly, there is no segmented information for the first quarter of 2010.

15. SUPPLEMENTAL CASH FLOW INFORMATION

($ Thousands)	Three Months Ended March 31, 2011	2010
Changes in non-cash working capital items related to continuing operations:		
Trade receivables	(3,582)	-
Related party receivable	(1,572)	-
Other receivable	45	13
Prepaid expenses and deposits	(1,448)	10
Accounts payable and accrued liabilities	246	273
Related party payable	316	-
	(5,995)	296

16. COMMITMENTS AND CONTINGENCIES

Other than the commitment noted below, there have been no significant changes in the Company's commitments for operating leases or ERDPSA related annual acreage fees, and the timing of those payments as reflected in the 2010 Audited Consolidated Financial Statements.

The Company has signed the Common Term Agreement between the shareholders of Bahar Energy Limited whereby each shareholder agrees to grant a credit facility to Bahar Energy up to specific amounts during a commitment period. As part of the CTA, the Company has also signed the 2011 Loan Agreement to fund up to $17.4 million during the period January 1, 2011 to December 31, 2011. As at March 31, 2011, the Company has not made an advance on this commitment. During May 2011, the Company made the first advance under the 2011 Loan Agreement for $8.7 million. (*See also Note 9, Related Party Transactions).*

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from subsidiaries for services performed under certain administrative services agreements and from advances made under certain joint venture agreements. The Company's current accounts receivable balances mainly consists of trade receivables from the Company's share of oil and gas revenue and transportation and storage fees generated under the ERDPSA, receivables from affiliates as result of the funding of administrative expenses and costs in connection with the ERDPSA operations, and management fees for administrative and technical support provided to the entity the Company has an equity interest in. The Company historically has not experienced any collection issues with its accounts receivable and none of the balances due are considered by management to be doubtful at March 31, 2011 and December 31, 2010; therefore, no impairment is recorded.

Cash and cash equivalents consist of bank balances and short term deposits held in a major United States bank. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit rating and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

b) Liquidity risk

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

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

The Company's financial liabilities as at March 31, 2011 and December 31, 2010 consist of accounts payable and accrued liabilities due within one year. Currently, the Company does not have any bank debt.

c) Currency risk

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

As at March 31, 2011 and December 31, 2010 the Company had no forward exchange contracts in place.

d) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand.

The Company's primary revenues are from oil and gas sales produced in Azerbaijan under the ERDPSA. Oil is sold through SOCAR and priced, on a quality differential basis, to the U.S. dollar-based Intercontinental Exchange ("ICE") at the Brent oil price at sales date. Natural gas is sold to SOCAR at a fixed price of $140/MCM under a take or pay formula. Gas over/underliftings are settled also at a fixed price for an initial term of five (5) years.

At March 31, 2011 and December 31, 2010, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Regular way purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt.

At March 31, 2011, the sensitivity in net earnings for each one percent change in interest rates on the notes payable was not applicable, as the notes payable were issued at the end of the quarter.

Fair value of financial instruments

The fair values of financial instruments as at March 31, 2011 and December 31, 2010 are disclosed below by financial instrument category as follows:

($ Thousands)		Level	March 31, 2011 Carrying Amount	March 31, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
Assets at FVTPL						
Cash and cash equivalents		1	36,328	36,328	47,977	47,977
Loans and receivables						
Trade		-	6,956	6,956	3,373	3,373
Related party	(a)	-	4,143	4,143	2,727	2,727
Other		-	146	146	-	-
Available for sale assets						
Corporate bonds		2	5,225	5,225	-	-
Income producing mutual funds		2	4,554	4,554	-	-
GFPI-USA	(b)	-	291	(b)	291	(b)
Other financial liabilities						
Accounts payable and accrued liabilities		-	2,524	2,524	2,278	2,278
Related party	(c)	-	2,677	2,677	2,361	2,361
Notes payable	(d)	-	4,995	4,995	-	-
Liabilities at FVTPL						
Warrants		2	2,568	2,568	2,219	2,219

a. Balances consist of receivables from Bahar Energy resulting from the funding of cost recoverable administrative expenses associated to "Pre-effective date petroleum operations".

b. The investment is measured at cost, as the fair value of this instrument cannot reliably be determined.

c. Balances consist of liabilities to certain shareholders of Bahar Energy for the funding of cost recoverable administrative expenses associated to "Pre-effective date petroleum operations".

d. The balance represents liabilities arising from the funding of operations by certain shareholders of Bahar Energy in the form of an interest bearing note to be repaid from future cash flows from the ERDPSA. *(See also Note 9, Related Party Transactions)*

18. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company ensures as much as possible that it will have sufficient liquidity to meet liabilities when due. The Company considers its capital structure to include working capital, and shareholders' equity and debt. 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 capital spending to manage current and projected working capital levels. The following table below outlines the composition of the Company's capital structure:

($ thousands)	March 31, 2011	December 31, 2010
Working Capital	46,309	47,492
Shareholders' Equity	50,230	50,457
Working Capital to Shareholders' Equity Ratio	92%	94%

19. TRANSITION TO IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "previous GAAP"). As a publicly listed company in Canada, the Company is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for all periods after January 1, 2010, including comparative historical information.

In accordance with transitional provisions, the Company prepared its opening balance sheet as at January 1, 2010 (the transition date) and 2010 financial information using the accounting policies set out in Note 3. The consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS by applying existing IFRS with an effective date of December 31, 2011 or earlier. This transition note explains the material adjustments required to adjust the financial statements from Canadian GAAP to IFRS.

In preparing these consolidated financial statements in accordance with IFRS 1, the following mandatory exceptions from full retrospective application of IFRS were applied.

- Estimates

  The estimates made under Canadian GAAP are required to be applied to the balances in accordance with IFRS unless there is evidence that the estimates were in error or to reflect any adjustments made to accounting policies to comply with IFRS. Hindsight was not used to create or revise estimates and, accordingly, estimates previously made under Canadian GAAP are consistent with their application under IFRS.

- Non-controlling interests

  At the date of transition, IFRS prescribes that certain requirements of IAS 27 "Consolidated and Separate Financial Statements" be applied prospectively. The company has adopted these exceptions and applies the relevant IAS 27 requirements prospectively.

The Company has applied the following optional exemptions under IFRS 1 to its opening balance sheet dated January 1, 2010:

- Business Combinations

  IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this exemption and has applied IFRS 3 only to business combinations that occurred on or after January 1, 2010.

The following schedules represent the reconciliations from Canadian GAAP to IFRS for the respective periods. The adjustments are noted with lower case letters. The adjustment descriptions are at 19.11.

19.1 TRANSITION TO IFRS

IFRS Opening Consolidated Balance Sheet

As at January 1, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Assets				
Current Assets				
Cash and cash equivalents	1,326			1,326
Receivable from related party	85			85
Prepaid expenses and deposits	33			33
	1,444		-	1,444
Non-Current Assets				
Investments	326			326
Property and equipment	8			8
	1,778		-	1,778
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	94			94
	94		-	94
Non-controlling interest	5	(b)	(5)	-
Shareholders' Equity				
Common stock / membership units	4,255			4255
Deficit	(2,576)			(2,576)
Total Shareholders' Equity	1,679			1,679
Non-controlling interest		(b)	5	5
Total Equity	1,679		5	1,684
	1,778		-	1,778

19.2 TRANSITION TO IFRS

Consolidated Balance Sheet

As at March 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Assets				
Current Assets				
Cash and cash equivalents	5,362			5,362
Trade receivables	-			-
Receivable from related party	72			72
Prepaid expenses and deposits	23			23
	5,457		-	5,457
Non-Current Assets				
Deferred share issue costs	68			68
Investments	109			109
Deferred tax asset	128			128
Property and equipment	27			27
	5,789		-	5,789
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	367			367
Warrants		(a)	1,377	1,377
	367		1,377	1,744
Non-controlling interest	30	(b)	(30)	-
Shareholders' Equity				
Common stock / membership units	8			8
Paid in capital	7,749			7,749
Warrants	1,198	(a)	(1,198)	-
Deficit	(3,563)	(a)	(179)	(3,742)
Total Shareholders' Equity	5,392		(1,377)	4,015
Non-controlling interest	-	(b)	30	30
Total Equity	5,392		(1,347)	4,045
	5,789		-	5,789

19.3 TRANSITION TO IFRS

Consolidated Balance Sheet

As at December 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Assets				
Current Assets				
Cash and cash equivalents	44,839	(c)	3,138	47,977
Trade receivables	3,373			3,373
Receivable from related party	2,727			2,727
Prepaid expenses and deposits	273			273
	51,212		3,138	54,350
Non-Current Assets				
Restricted cash	3,138	(c)	(3,138)	-
Investments	291			291
Deferred tax asset	1,588			1,588
Property and equipment	1,087			1,087
	57,316		-	57,316
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	2,278			2,278
Payable to related party	2,361			2,361
Warrants		(a)	2,219	2,219
	4,639		2,219	6,858
Non-controlling interest	1	(b)	(1)	-
Commitments and Contingencies	-			-
Shareholders' Equity				
Common stock / membership units	15			15
Paid in capital	56,527	(a)	(1)	56,526
Warrants	1,186	(a)	(1,186)	-
Contributed surplus	1,361			1,361
Deficit	(6,413)	(a)	(1,032)	(7,445)
Total Shareholders' Equity	52,676		(2,219)	50,457
Non-controlling interest	-	(b)	1	1
Total Equity	52,676		(2,218)	50,458
	57,316		-	57,316

Consolidated Statement of Loss

Three Months Ended March 31, 2010

($ Thousands, except per share amounts)	Previous GAAP		IFRS Adjustment	IFRS
			(Note 19)	
Revenues				
Petroleum and natural gas	-			-
Management service fees	251		-	251
	251		-	251
Expenses				
Administrative	1,124	(a)	124	1,248
Depreciation and amortization	1			1
	1,125		124	1,249
Loss from operating activities	(874)		(124)	(998)
Loss on investments	217			217
Change in fair value of warrants		(a)	55	55
Loss before income taxes and non-controlling interest	(1,091)		(179)	(1,270)
Income tax recovery	(129)		-	(129)
Net loss	(962)		(179)	(1,141)
Income attributable to non-controlling interest	25		-	25
Net loss attributable to shareholders of Greenfields Petroleum Corporation	(987)		(179)	(1,166)
Per share				
Net loss per share, basic & diluted	($0.14)		($0.02)	($0.16)

Consolidated Statement of Loss

Year Ended December 31, 2010

($ Thousands, except per share amounts)	Previous GAAP		IFRS Adjustment	IFRS
			(Note 19)	
Revenues				
Petroleum and natural gas	5,078		-	5,078
Management service fees	503	(d)	2,510	3,013
	5,581		2,510	8,091
Expenses				
Operating	2,509		-	2,509
Transportation	153		-	153
Administrative	8,069	(a)	124	10,703
		(d)	2,510	
Depreciation and amortization	15			15
	10,746		2,634	13,380
Loss from operating activities	(5,165)		(124)	(5,289)
Loss on investments	226		-	226
Change in fair value of warrants	-	(a)	908	908
Loss from operations before tax	(5,391)		(1,032)	(6,423)
Income tax recovery	(1,588)		-	(1,588)
Net loss	(3,803)		(1,032)	(4,835)
Income attributable to non-controlling interest	24		-	24
Net loss attributable to shareholders of Greenfields Petroleum Corporation	(3,827)		(1,032)	(4,859)
Per share				
Net loss per share, basic & diluted	($0.43)		($0.11)	($0.54)

Consolidated Statement of Changes in Equity

Three Months Ended March 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Membership units				
Balance, Beginning of period	4,255		-	4,255
Issued per long term incentive plan	330		-	330
Value of unvested restricted units	(176)		-	(176)
Distribution to unitholders	(4)		-	(4)
	4,405		-	4,405
Cancellation of membership units	(4,405)		-	(4,405)
Balance, End of Period	-		-	-
Common stock				
Balance, Beginning of period	-		-	-
Common shares issued upon conversion	7		-	7
Issued pursuant to private placements	1		-	1
Balance, End of Period	8		-	8
Paid in Capital				
Balance, Beginning of period	-		-	-
Common shares issued upon conversion	4,399		-	4,399
Issued pursuant to private placements	3,486		-	3,486
Share issue costs	(345)		-	(345)
Private placement broker commission	209		-	209
Balance, End of Period	7,749		-	7,749
Warrants				
Balance, Beginning of period	-		-	-
Issued pursuant to private placement	1,247	(a)	(1,247)	-
Warrant issued costs, net of tax	(124)	(a)	124	-
Private placement broker commission	75	(a)	(75)	-
Balance, End of Period	1,198		(1,198)	-
Deficit				
Balance, Beginning of period	(2,576)		-	(2,576)
Net loss	(987)	(a)	(179)	(1,166)
Balance, End of Period	(3,563)		(179)	(3,742)
Total Shareholders' Equity	5,392		(1,377)	4,015
Non-Controlling Interest				
Balance, Beginning of period	-		5	5
Change		(b)	25	25
Total Non-Controlling Interest	-		30	30
Total Equity	5,392		(1,347)	4,045

19.7 TRANSITION TO IFRS

Consolidated Statement of Changes in Equity

Nine Months from April, 1, 2010 to December 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Common stock				
Balance, Beginning of period	8		-	8
Issued pursuant to private placements	2		-	2
Issued pursuant to public offering	5		-	5
Balance, End of Period	15		-	15
Paid in Capital				
Balance, Beginning of period	7,749		-	7,749
Issued pursuant to private placements	12,510	(a)	(1)	12,509
Issued pursuant to public offering	40,426		-	40,426
Repurchase of common shares	(21)			(21)
Share issue costs	(4,242)		-	(4,242)
Warrant exercise	37		-	37
Stock-based compensation	59		-	59
Excess tax benefit - share grants	9		-	9
Balance, End of Period	56,527		(1)	56,526
Warrants				
Balance, Beginning of period	1,198	(a)	(1,198)	-
Exercise	(12)	(a)	12	-
Balance, End of Period	1,186		(1,186)	-
Contributed Surplus				
Balance, Beginning of period	-		-	-
Stock-based compensation	1,361		-	1,361
Balance, End of Period	1,361		-	1,361
Deficit				
Balance, Beginning of period	(3,563)		(179)	(3,742)
Net loss	(2,850)	(a)	(853)	(3,703)
Balance, End of Period	(6,413)		(1,032)	(7,445)
Total Shareholders' Equity	52,676		(2,219)	50,457
Non-Controlling Interest				
Balance, Beginning of period	-		30	30
Change	-	(b)	(29)	(29)
Total Non-Controlling Interest	-		1	1
Total Equity	52,676		(2,218)	50,458

Consolidated Statement of Changes in Equity

Year Ended December 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment	IFRS
			(Note 19)	
Membership units				
Balance, Beginning of Year	4,255		-	4,255
Issued per long term incentive plan	330		-	330
Value of unvested restricted units	(176)		-	(176)
Distribution to unitholders	(4)		-	(4)
	4,405		-	4,405
Cancellation of membership units	(4,405)		-	(4,405)
Balance, End of Year	-		-	-
Common stock				
Balance, Beginning of Year	-			-
Common shares issued upon conversion	7		-	7
Issued pursuant to private placements	3		-	3
Issued pursuant to public offering	5		-	5
Balance, End of Year	15		-	15
Paid in Capital				
Balance, Beginning of Year	-			-
Common shares issued upon conversion	4,399			4,399
Issued pursuant to private placements	15,996	(a)	(1)	15,995
Issued pursuant to public offering	40,426			40,426
Repurchase of common shares	(21)		-	(21)
Share issue costs	(4,587)			(4,587)
Private placement broker commission	209			209
Warrant exercise	37			37
Stock-based compensation	59		-	59
Excess tax benefit – share grants	9		-	9
Balance, End of Year	56,527		(1)	56,526
Warrants				
Balance, Beginning of Year	-		-	-
Issued pursuant to private placement	1,247	(a)	(1,247)	-
Warrant issued costs, net of tax	(124)	(a)	124	-
Private placement broker commission	75	(a)	(75)	-
Exercise	(12)	(a)	12	-
Balance, End of Year	1,186		(1,186)	-
Contributed Surplus				
Balance, Beginning of Year	-		-	-
Stock-based compensation	1,361		-	1,361
Balance, End of Year	1,361		-	1,361
Deficit				
Balance, Beginning of Year	(2,576)		-	(2,576)
Net loss	(3,837)	(a)	(1,032)	(4,869)
Balance, End of Year	(6,413)		(1,032)	(7,445)
Total Shareholders' Equity	(52,676)		(2,219)	50,457
Non-Controlling Interest				
Balance, Beginning of Year	-	(b)	5	5
Change			(4)	(4)
Total Non-Controlling Interest	-		1	1
Total Equity	52,676		(2,218)	50,458

19.9 TRANSITION TO IFRS

Consolidated Statement of Cash Flows

Three Months Ended March 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Operating activities				
Net loss	(987)	(a)	(179)	(1,166)
Items not affecting cash:				
Stock-based compensation	154		-	154
Depreciation and amortization	1		-	1
Loss on investment	217		-	217
Non-controlling interest	25		-	25
Income tax recovery – loss from operations	(129)		-	(129)
Change in fair value of warrants		(a)	55	55
	(719)		(124)	(843)
Change in non-cash operating working capital	296		-	296
Cash Used in Operating Activities	(423)		(124)	(547)
Financing activities				
Proceeds from issue of common shares	4,734		-	4,734
Share issue costs	(251)	(a)	124	(127)
Distributions paid to unitholders	(4)		-	(4)
Cash From Financing Activities	4,479		124	4,603
Investing activities				
Property and equipment	(20)		-	(20)
Cash Used in Investing Activities	(20)		-	(20)
Increase in Cash and Cash Equivalents	4,036		-	4,036
Cash and Cash Equivalents, Beginning of Period	1,326		-	1,326
Cash and Cash Equivalents, End of Period	5,362		-	5,362

19.10 TRANSITION TO IFRS

Consolidated Statement of Cash Flows

Year Ended December 31, 2010

($ Thousands)	Previous GAAP		IFRS Adjustment (Note 19)	IFRS
Operating activities				
Net loss	(3,827)	(a)	(1,032)	(4,859)
Items not affecting cash:				
Stock-based compensation	1,576		-	1,576
Depreciation and amortization	15		-	15
Loss on investment	217		-	217
Non-controlling interest	24		-	24
Income tax recovery - loss from operations	(1,588)		-	(1,588)
Change in fair value of warrants		(a)	908	908
	(3,583)		(124)	(3,707)
Change in non-cash operating working capital	(1,710)		-	(1,710)
Cash Used in Operating Activities	(5,293)		(124)	(5,417)
Financing activities				
Proceeds from issue of common shares	57,702		-	57,702
Agent commissions on issue of common shares	(3,173)		-	(3,173)
Share issue costs	(1,277)	(a)	124	(1,153)
Distributions paid to unitholders	(4)		-	(4)
Non-controlling interest cash distributions	(28)		-	(28)
Cash From Financing Activities	53,220		124	53,344
Investing activities				
Property and equipment	(1,094)		-	(1,094)
Investments	(182)		-	(182)
Restricted cash held for use in a joint venture	(3,138)	(c)	3,138	-
Cash Used in Investing Activities	(4,414)		3,138	(1,276)
Increase in Cash and Cash Equivalents	43,513		3138	46,651
Cash and Cash Equivalents, Beginning of Year	1,326		-	1,326
Cash and Cash Equivalents, End of Year	44,839		3,138	47,977

19.11 TRANSITION TO IFRS

The following explains the significant differences between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied.

IFRS Adjustments

(a) Warrants

Warrants were issued as part of a private placement in February 2010 and were treated under previous GAAP as an equity instrument in Shareholders' Equity. Under IFRS they must be classified as a financial liability at fair value through profit or loss for two reasons:

- the warrants have an exercise price denominated in Canadian dollars while the Company's functional currency is US dollars. As such, the amount of US dollars that the Company will receive for each share issued is variable.
- the warrants were not "offered pro rata to all existing owners of the same class of its own shares".

As a result of this reclassification adjustment, the following adjustments were also necessary:

- Under IFRS, transaction costs related to financial assets/liabilities at fair value through profit or loss are recognized as an expense when incurred. As a result, the $0.124 million of warrant issue costs were reclassified to administrative expense when incurred in Q1 2010. Under previous GAAP, these costs were reflected in equity as they were netted against the value of the warrants.
- Financial liabilities at fair value through profit and loss must be remeasured to fair value at each balance sheet date. As such, the revaluation adjustment is reflected as loss on fair value adjustment of warrants in the condensed consolidated statements of net loss for the three months ended March 31, 2010 and 2011 and the year ended December 31, 2010. Under previous GAAP, the warrants were not remeasured at fair value as they were classified as equity instruments.

(b) Non-Controlling Interest

The Company owns an 85% controlling interest in Greenfields Petroleum (Indonesia) Company Ltd. Under previous GAAP, the portion attributable to the non-controlling interest (15%) was presented on the balance sheet as a separate category between total liabilities and equity. Under IFRS, the non-controlling interest is classified within equity but is presented separately from shareholders' equity.

(c) Restricted Cash

Under previous GAAP, cash subject to restrictions preventing its use for current purposes is not included among cash and cash equivalents; it is presented on the balance sheet separately. Under IFRS, a restriction on the use of cash or cash equivalents does not alter the classification of the restricted amounts.

(d) Administrative expenses – billed to Bahar Energy

Under previous GAAP, the Company's billings in 2010 to Bahar Energy for expenses covered under the Technical Services Agreement were accounted for as a contra to administrative expenses. Under IFRS such billings are recognized as revenues.