

**GREENFIELDS PETROLEUM
CORPORATION**



Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2014

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited, US\$000's

| | Notes | As at March 31, 2014 | As at December 31, 2013 |
|---|-------|----------------------------|-------------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 2,763 | 3,068 |
| Receivables from related party | 4 | 786 | 367 |
| Other receivables | | 8 | 11 |
| Prepaid expenses and deposits | 5 | 692 | 701 |
| | | 4,249 | 4,147 |
| Non-Current Assets | | | |
| Investment in joint venture | 6 | 55,793 | 45,084 |
| Property and equipment | | 87 | 106 |
| | | 60,129 | 49,337 |
| Liabilities and Equity | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 7 | 2,476 | 2,413 |
| Non-Current Liabilities | | | |
| Long term loans | 8 | 11,744 | 2,739 |
| Convertible Debentures | 9 | 17,670 | 18,284 |
| | | 29,414 | 21,023 |
| Shareholders' Equity | | | |
| Common shares | 10 | 20 | 20 |
| Paid in capital | | 73,540 | 72,410 |
| Share-based payments reserve | 11 | 4,954 | 4,847 |
| Deficit | | (50,275) | (51,376) |
| Total Shareholders' Equity | | 28,239 | 25,901 |
| <i>(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 14)</i> | | 60,129 | 49,337 |

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

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

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

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2014 | 2013 |
| Revenues | | |
| Management service fees | 427 | 687 |
| Expenses | | |
| Administrative | 1,852 | 2,421 |
| Depreciation and amortization | 19 | 25 |
| | 1,871 | 2,446 |
| Loss from operating activities | (1,444) | (1,759) |
| (Income) Loss on investment in joint venture <i>(Note 6)</i> | (3,218) | 2,057 |
| Dividends, interest and other income <i>(Note 12)</i> | - | (23) |
| Interest expense <i>(Note 12)</i> | 1,570 | 782 |
| Foreign exchange (gain) loss | (691) | (352) |
| Change in fair value of derivative liability <i>(Note 9)</i> | (206) | (420) |
| Income (Loss) before income taxes | 1,101 | (3,803) |
| Net Income (Loss) | 1,101 | (3,803) |
| Per share | | |
| Net income (loss) per share, basic and diluted <i>(Note 10)</i> | \$0.06 | (\$0.24) |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

US\$000's

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 2014 | 2013 |
| Net Income (Loss) | 1,101 | (3,803) |
| Gain (loss) arising from revaluation of available for sale financial assets during the period | - | (11) |
| | - | (11) |
| Total comprehensive income (loss) | 1,101 | (3,814) |

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

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited, US\$000's

| | Three Months Ended March 31, | |
|--|---------------------------------|---------------|
| | 2014 | 2013 |
| Common shares <i>(Note 10)</i> | | |
| Balance, beginning of period | 20 | 16 |
| Balance, end of period | 20 | 16 |
| Paid in capital | | |
| Balance, beginning of period | 72,410 | 61,519 |
| Repurchase of common shares | (10) | (78) |
| Shares issued - long term loan agreement | 1,125 | - |
| Share-based payments | 15 | 19 |
| Balance, end of period | 73,540 | 61,460 |
| Share-based payments reserve <i>(Note 11)</i> | | |
| Balance, beginning of period | 4,847 | 4,337 |
| Share-based payments | 107 | 137 |
| Balance, end of period | 4,954 | 4,474 |
| Deficit | | |
| Balance, beginning of period | (51,376) | (48,097) |
| Net income (loss) | 1,101 | (3,803) |
| Balance, end of period | (50,275) | (51,900) |
| Investment revaluation reserve | | |
| Balance, beginning of period | - | 11 |
| Other comprehensive income for the period | - | (11) |
| Balance, end of period | - | - |
| Total Shareholders' Equity | 28,239 | 14,050 |

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

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited, US\$000's

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 31, | |
| | 2014 | 2013 |
| Operating Activities | | |
| Income (Loss) before income taxes | 1,101 | (3,803) |
| <u>Items not affecting cash:</u> | | |
| Share-based compensation (Note 11) | 122 | 157 |
| Depreciation and amortization | 19 | 25 |
| (Income) Loss on investment in joint venture | (3,218) | 2,057 |
| Dividends and interest from short term investments | - | (23) |
| Interest expense | 1,570 | 776 |
| Unrealized foreign exchange (gain) loss | (689) | (358) |
| (Gain) Loss from derivative liability (Note 9) | (206) | (420) |
| Cash used in operating activities before changes in non-cash working capital | (1,301) | (1,589) |
| Change in non-cash operating working capital (Note 13) | (486) | 1,494 |
| Cash Used in Operating Activities | (1,787) | (95) |
| Financing Activities | | |
| Proceeds from long term loans, net of structuring fees | 9,750 | - |
| Long term loans transaction costs | (120) | - |
| Cash interest paid long term loans | (557) | - |
| Repurchase of common shares | (10) | (78) |
| Change in non-cash working capital (Note 13) | (69) | - |
| Cash From (Used in) Financing Activities | 8,994 | (78) |
| Investing Activities | | |
| Investment in joint venture (Note 6) | (7,491) | (11,069) |
| Short term investments | - | 1,693 |
| Cash interest received | - | 32 |
| Dividends from equity investment | - | 11 |
| Cash Used in Investing activities | (7,491) | (9,333) |
| Effect of exchange rates on changes on cash | (21) | (61) |
| Decrease in Cash and Cash Equivalents | (305) | (9,567) |
| Cash and Cash Equivalents, beginning of period | 3,068 | 12,404 |
| Cash and Cash Equivalents, end of period | 2,763 | 2,837 |

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

GREENFIELDS PETROLEUM CORPORATION
Notes to the Condensed Consolidated Financial Statements
For the three months ended March 31, 2014 and 2013

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

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation (“**Greenfields**” or the “**Company**”), incorporated in the Cayman Islands, is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan (“**Azerbaijan**”). The head office of the Company is located at 211 Highland Cross Drive, Suite 227, Houston, Texas, 77073, U.S.A., and the registered office is located at 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The Company’s common shares and convertible debentures are listed on Toronto’s TSX – Venture Exchange (“**TSX-V**”) under the trading symbols “**GNF**” and “**GNF.DB**”, respectively.

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

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“**IAS 34**”). The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments (convertible debentures) and share-based compensation transactions which are measured at fair value.

The presentation and functional currency of the Company is the United States dollar (“**USD**”) and all values are presented in thousands of US dollars except where otherwise indicated.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2013 prepared in accordance with *International Financial Reporting Standards* (“**IFRS**”) as issued by the *International Accounting Standards Board* (“**IASB**”). The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014 which details are discussed in Note 3.

These condensed consolidated financial statements were approved for issue by the Audit Committee of the Company’s Board of Directors on May 27, 2014.

The Corporation’s joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Corporation’s investment in the joint venture is dependent upon the joint venture’s ability to complete the development of properties which includes meeting the related financing requirements. As at March 31, 2014 the Corporation’s ability to continue as a going concern is dependent on management’s ability to secure adequate financing, either directly or indirectly at the project level. There is no certainty that such financing will be obtained on terms acceptable to management which may cast significant doubt about the Corporation’s ability to continue as going concern.

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

On November 25, 2013, the Company secured additional funding through a \$25 million loan facility with the proceeds primarily dedicated to finance the Company's ongoing development operations for the Bahar Project over the next 12 to 18 months. The Company has a \$10 million loan commitment to Bahar Energy for the funding of deficit cash flows associated with the 2014 Bahar Annual Work Program and Budget, which is subject to change. See Note 14 – "Commitments and Contingencies".

Under the ERDPSA, Bahar Energy, through the operating company of the project, had a contractual obligation to increase the average daily production rate for the Bahar Project to 6,944 boe/d and to maintain that rate over a consecutive 90 days period (TPR1). On January 31, 2014, BEOC informed SOCAR that they had maintained an average rate of 7,081 boe/d for the previous 92 consecutive days meeting the TPR1 requirement in accordance with the ERDPSA. This production milestone has been acknowledged by SOCAR with official notice still pending that will trigger the \$2 million bonus obligation of BEL (\$667 thousand net to the Company). Meeting the TPR1 requirement secures for the Contractor Parties in the ERDPSA the rights under the ERDPSA to the full twenty-five (25) year development and production period.

On April 17, 2014, BEOC informed SOCAR that TPR2, as required under the ERDPSA, was achieved on March 31, 2014. BEOC is awaiting acceptance from SOCAR that the TPR2 obligation has been met. Once accepted by SOCAR, SOA, with a 20% interest, will be obligated to pay its share of costs going forward in the next calendar quarter. SOA will also begin to repay the carry that has been in place since the beginning of the project from SOA's share of petroleum revenues attributable to cost recovery.

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

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

On January 1, 2014, the Company adopted the following new IFRS standards and amendments in accordance with the transitional provisions of each standard. The adoption of these standards did not have a material impact on the Company's condensed consolidated financial statements. A brief description of each new standard follows below:

IAS 32 "Financial Instruments: Presentation"

In December 2011, the IASB issued amendments to IAS 32 to address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities.

IFRIC 21 "Levies"

In May 2013, the IASB issued IFRIC 21 Levies which was developed by the IFRS Interpretations Committee ("IFRIC"). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. The adoption of this standard had no impact on the amounts recorded in these condensed consolidated financial statements for the periods reported.

IFRS 9 "Financial Instruments"

GREENFIELDS PETROLEUM CORPORATION
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In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendments to IFRS 9 are applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption allowed. The Company is currently assessing the effect on its financial statements.

4. RELATED PARTY TRANSACTIONS

At March 31, 2014, the Company had a balance of \$0.8 million (December 31, 2013 - \$0.4 million) in accounts receivable with BEOC. Balances due are attributable to work performed under BEOC approved "Affiliate Service Orders" ("ASO") and Personnel Secondment Agreements. Management does not believe balances due pose collection risk as these charges are associated with amounts invoiced in the normal course of business.

For the three months ended March 31, 2014 the Company recorded \$0.4 million (March 31, 2013 - \$0.7 million) in management service fees for management, administrative and technical services performed at cost for BEOC in the normal course of business under ASO's and Personnel Secondment Agreements noted above.

5. PREPAID EXPENSES AND DEPOSITS

At March 31, 2014, the Company had prepaid expenses and deposits of \$0.7 million (December 31, 2013 - \$0.7 million). The current balance includes \$0.6 million in deferred long term loan structuring fees which will be recognized as an expense over the term of the respective loan.

6. INVESTMENT IN JOINT VENTURE

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

Continuity of Investment in Joint Venture

| <i>US\$000's</i> | Investment in Joint Venture |
|----------------------------------|--------------------------------|
| At January 1, 2013 | 21,510 |
| Funding | 11,069 |
| Share of Loss of Joint Venture | (2,057) |
| At March 31, 2013 | 30,522 |
| Funding | 10,076 |
| Share of Income of Joint Venture | 4,486 |
| At December 31, 2013 | 45,084 |
| Funding | 7,491 |
| Share of Income of Joint Venture | 3,218 |
| At March 31, 2014 | 55,793 |

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

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

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

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

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

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

Bahar Energy funding needs are primarily covered by entitled revenue, equity contributions and shareholders’ loans. To the extent that additional funds are required, the Bahar Energy shareholders have entered into a Common Terms Agreement (“**CTA**”) pursuant to which each shareholder agrees to grant Bahar Energy a credit facility to be made available by way of an annual loan agreement up to a specific amount based on the annual work plan approved by the directors. It is anticipated that future cash flows from operations under the ERDPSA would be used to repay the loans.

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

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

GREENFIELDS PETROLEUM CORPORATION
Notes to the Condensed Consolidated Financial Statements
For the three months ended March 31, 2014 and 2013

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

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

| Assets | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Current Assets | | |
| Cash and cash equivalents | 4,314 | 1,404 |
| Trade receivables | 16,652 | 16,085 |
| Other receivable | 285 | 198 |
| Advances for operating activities | 2,460 | 2,466 |
| Inventories | 7,021 | 6,355 |
| | 30,732 | 26,508 |
| Non-Current Assets | | |
| Restricted cash ⁽¹⁾ | 10,414 | 6,865 |
| Advances for capital equipment | 873 | 471 |
| Property and equipment | 156,463 | 141,659 |
| | 198,482 | 175,503 |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 34,965 | 38,974 |
| Payables to related parties | 11,693 | 7,810 |
| | 46,658 | 46,784 |
| Net Assets | | |
| | 151,824 | 128,719 |
| Company's share of net assets (33.33%) | 50,603 | 42,902 |
| Timing differences in Joint Venture funding | 5,190 | 2,182 |
| Carrying amount of Investment in Joint Venture | 55,793 | 45,084 |

⁽¹⁾ Funds held for related party and not available for operations at March 31, 2014.

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

| | March 31, 2014 | March 31, 2013 |
|--|----------------|----------------|
| Revenues | | |
| Petroleum and natural gas | 21,623 | 16,523 |
| Transportation and storage fees | 1,275 | 1,227 |
| | 22,898 | 17,750 |
| Expenses | | |
| Operating & administrative | 10,175 | 23,392 |
| Depreciation and amortization | 3,066 | 528 |
| | 13,241 | 23,920 |
| Income (Loss) from operating activities | 9,657 | (6,170) |
| Net Income (Loss) | 9,657 | (6,170) |
| Company's Share of Income (Loss) of Joint Venture | 3,218 | (2,057) |

GREENFIELDS PETROLEUM CORPORATION
Notes to the Condensed Consolidated Financial Statements
For the three months ended March 31, 2014 and 2013

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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| <i>(US\$000's)</i> | March 31, 2014 | December 31, 2013 |
|------------------------|----------------|-------------------|
| Trade accounts payable | 274 | 195 |
| Accrued liabilities | 2,202 | 2,218 |
| | 2,476 | 2,413 |

8. LONG TERM LOANS

On November 25, 2013 the Company secured a \$25 million loan facility ("**Loan**") through an arm's length third party (the "**Lender**"). Pursuant to the terms of the loan agreement (the "**Loan Agreement**") among the Lender, the Company, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors ("**Guarantors**"), the Company is entitled to draw up to an aggregate of \$25 million in tranches based upon the achievement of certain operational milestones.

The Loan is subject to a cash structuring fee of 2.5% payable on each tranche advanced in accordance with the Loan Agreement. The amounts drawn bear interest rates between 15% and 20% and mature on December 31, 2015. The Loan is secured by first priority liens on the existing and future assets of the Company and the Guarantors. Also in consideration of the Loan, the Company has agreed to issue to the Lender common shares of the Company as bonus shares (the "**Bonus Shares**") which will be subject to resale restrictions expiring four months from the date of issuance. At March 31, 2014 the Company had drawn available advances of \$15 million (\$14.625 million net of 2.5% cash structuring fees) of the secured Loan and recorded transaction costs of \$0.4 million. In addition, the Company issued 1,029,979 Bonus Shares to the Lender with a value of \$3 million. The transaction costs and the value of Bonus Shares will be accreted over the life of the loan. The number of Bonus Shares to be issued at future Loan milestones and advances will be dependent upon the trading price of the common shares of the Company on the TSX Venture Exchange at the time of each issuance of Bonus Shares. See also *Note 11 – Share Based Payments*.

| <i>(US\$000's)</i> | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Loan facility | 25,000 | 25,000 |
| Unused portion of loan facility | (10,000) | (20,000) |
| Total loans drawn down | 15,000 | 5,000 |
| Unamortized debt issue costs | (3,256) | (2,261) |
| Carrying value of long term loans | 11,744 | 2,739 |

On March 24, 2014 the Company gave notice to the Lender requesting the remaining \$10 million available advance under the Loan Agreement. The \$10 million was received, net of the 2.5% structuring fee, on April 1, 2014. In consideration for the final \$10 million advance on the Loan, the Company issued 170,648 bonus shares to Lender valued at \$0.5 million.

GREENFIELDS PETROLEUM CORPORATION
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9. CONVERTIBLE DEBENTURES

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

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

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

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

| <i>(US\$000's)</i> | Financial Statement Components | | | |
|------------------------------------|--------------------------------|-------------------------------------|----------------|------------------|
| | Liability | Derivative Liability ⁽¹⁾ | Carrying Value | Principal Amount |
| Balance December 31, 2013 | 16,952 | 1,332 | 18,284 | 22,307 |
| Accretion | 281 | - | 281 | - |
| Change in fair value of derivative | - | (206) | (206) | - |
| Foreign exchange loss | (639) | (50) | (689) | (842) |
| Balance March 31, 2014 | 16,594 | 1,076 | 17,670 | 21,465 |

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

The liability portion of the Debentures is measured at amortized cost and accreted up to the principal balance at maturity using an effective interest rate of 18.8 percent. The accretion and the interest paid are expensed as interest expense in the consolidated statement of net income (loss). The derivative financial liability is measured at fair value through profit or loss, with adjustments recorded in "changes in fair value of derivative liability".

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

| | March 31, 2014 |
|---|----------------|
| Market price per common share – CAD\$ | 3.25 |
| Conversion price per common share – CAD\$ | 8.55 |
| Risk-free interest rate range | 1.35% |
| Expected life - years | 3.17 |
| Expected volatility | 55.25% |
| Shares issuable at conversion | 2,725,825 |

10. SHAREHOLDERS' EQUITY

Authorized Share Capital

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

Common Shares

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

Preferred Shares

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

There were no preferred shares issued and outstanding at March 31, 2014 and December 31, 2013.

Common shares continuity schedule:

| Outstanding common shares <i>(US\$000's, except for share numbers)</i> | Number of Common Shares | Amount |
|--|-------------------------------|--------|
| As at December 31, 2013 | 19,147,409 | 72,430 |
| Shares issued per loan consideration | 377,517 | 1,125 |
| Repurchase of common shares | (3,265) | (10) |
| Amortization of restricted share awards | - | 15 |
| As at March 31, 2014 | 19,521,661 | 73,560 |

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| Reconciliation of issued and outstanding shares | | |
|--|-------------------|-------------------|
| | March 31, 2014 | December 31, 2013 |
| Issued | 19,577,477 | 19,199,960 |
| Shares acquired by Company | (66,849) | (63,584) |
| Shares issued from treasury | 11,033 | 11,033 |
| Total Outstanding | 19,521,661 | 19,147,409 |

Per Share Information

| Per share loss | | |
|--|----------------|-----------------|
| <i>(US\$000's, except for per share amount)</i> | March 31, 2014 | March 31, 2013 |
| Weighted average number of common shares outstanding | 19,613,004 | 15,541,356 |
| Net income (loss) | 1,101 | (3,803) |
| Basic and diluted income (loss) per share | \$0.06 | (\$0.24) |

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options and convertible debentures is based on quoted market prices for the period that the equity instruments were outstanding. For the three months ended March 31, 2014 the 1,775,000 options (March 31, 2013 – 1,291,000 options) and 2,725,825 (March 31, 2013 – 2,725,825) shares issuable at conversion of debentures were excluded from calculating dilutive earnings per share as they were anti-dilutive.

Common shares issued in consideration of long term loan costs

Pursuant to the terms of the Loan Agreement, the Company agreed to issue to the Lender common shares of the Company as bonus shares which will be subject to resale restrictions expiring four months from the date of issuance. At March 31, 2014 the Company had issued 1,029,979 bonus shares to the Lender at an average price of CAD\$3.09 (USD\$2.91) per common share.

Acquisition of common shares

In February 2014 the Company acquired 3,265 common shares at fair market value of CAD\$3.35 per share (February 2013 – 15,509 at fair market value of CAD\$5.00) from certain employees as a result of share grants vesting from the February 2, 2010 Long Term Incentive Plan (“LTIP”). The LTIP provides the opportunity to employees to pay cash or sell to the Company the number of shares equal to their statutory withholding tax due at vesting date in order to reimburse the Company for remitting the employees' withholding tax obligation to the US Internal Revenue Service.

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

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At March 31, 2014 and December 31, 2013 the Company did not hold any common shares in treasury.

11. SHARE BASED PAYMENTS

The share-based payments recorded by the Company are associated with share options, restricted share grants and shareholder settled transactions. Share-based payment expenses for the three months ended March 31, 2014 were \$0.1 million (March 31, 2013 - \$0.2 million).

Share Options

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

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

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

| | |
|----------------------------------|-----------|
| Risk-free interest rate range | 0.7% - 2% |
| Expected life | 4.0 years |
| Expected volatility range | 40% - 57% |
| Expected dividend | - |
| Weighted average forfeiture rate | 1.8% |
| Weighted average fair value | \$2.13 |

Continuity of Stock Options

| | March 31, 2014 | | December 31, 2013 | |
|---|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | Number of shares underlying options | Average exercise price (CAD\$) | Number of shares underlying options | Average exercise price (CAD\$) |
| Outstanding, beginning of period | 1,825,000 | 5.99 | 1,291,000 | 7.83 |
| Granted | - | - | 720,000 | 3.17 |
| Forfeited | (50,000) | 6.50 | (186,000) | 7.84 |
| Outstanding, end of period | 1,775,000 | 5.98 | 1,825,000 | 5.99 |
| Exercisable, end of period | 1,242,500 | 7.02 | 1,030,000 | 7.74 |

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The exercise prices of the share options ranges from CAD\$2.90 to CAD\$14.00 per common share with all options expiring on various dates between years 2016 and 2021. With the exception of the June 2012 150,000 share options award and the “**TPR1 Share Options**” granted in October 2013, the share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date. The exercisable options as at March 31, 2014 have remaining contractual lives ranging from 2.8 to 7.1 years.

For the three months ended March 31, 2014 and 2013, the Company recorded share options expense of \$0.1 million and \$0.1 million, respectively. The share options expense is offset to the Company's share-based payment reserve.

Restricted Share Awards

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

For the three months ended March 31, 2014, the Company recorded share-based payments expense related to past and current share grants of \$15 thousand (March 31, 2013 - \$19 thousand). Expenses associated with restricted share awards are recorded with an offset to share capital of the Company.

In September and October 2013 the Corporation authorized the awards of 186,000 and 230,000 restricted shares, respectively, to certain officers and a director of the Corporation. The awards are contingent to the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar and implementation of study recommendations. The shares awarded upon the achievement of each indicated milestone will vest 50% on each July 31, 2014 and 2015. As of March 31, 2014 all but 6,000 contingent share awards have been earned. The Corporation has established a constructive obligation in relation to the issuance of 410,000 shares at a future date using the closing share price on March 31, 2014 of CAD\$3.25.

For the three months ended March 31, 2014, the Corporation has accrued obligations in the amount of \$0.3 million (March 31, 2013 - \$nil). Expenses associated with this award are recorded with an offset to accrued share based bonuses.

Restricted Cash Bonus Program

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

The FVBCB incentive awards vest in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The fair value of FVBCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the second and third year of the award. The estimated FVBCB liability is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is also fair valued at each reporting date

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with adjustments recorded through profit and loss. The estimated FVBCB liability at March 31, 2014 was \$0.2 million (March 31, 2013 - \$0.3 million).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at March 31, 2014 was \$0.2 million (March 31, 2013 - \$0.3 million).

| Grant Date | FVBCB Units | ABCB Units | ABCB Units | | | |
|---------------|-------------|------------|-------------------|-------------|-----------------|------------------------------------|
| | | | Grant Price \$CAD | Exercisable | Expiration Date | Remaining Contractual Life - Years |
| June 4, 2012 | 41,667 | 145,000 | 4.80 | 108,750 | June 4, 2017 | 3.2 |
| Sept. 4, 2012 | 3,333 | 10,000 | 5.65 | 7,500 | Sept. 4, 2017 | 3.4 |
| Oct. 5, 2012 | 6,667 | 30,000 | 5.63 | 22,500 | Oct. 5, 2017 | 3.5 |
| Dec. 1, 2012 | 1,200 | 3,600 | 4.80 | 2,700 | Dec. 1, 2017 | 3.7 |
| Dec. 24, 2012 | 100,000 | 180,000 | 3.50 | 90,000 | Dec. 24, 2018 | 4.7 |
| | 152,867 | 368,600 | | 231,450 | | |

For the three months ended March 31, 2014, the Company recorded restricted cash bonus expense of \$43 thousand (March 31, 2013 - \$213 thousand).

Share-based payments reserve

| (US\$000's) | Amount |
|------------------------------------|--------|
| Balance December 31, 2013 | 4,847 |
| Stock options share-based payments | 107 |
| Balance March 31, 2014 | 4,954 |

12. DIVIDENDS, INTEREST INCOME AND INTEREST EXPENSE

| (US\$000's) | Three Months Ended March 31, | |
|--|------------------------------|------|
| | 2014 | 2013 |
| Dividend income | - | (11) |
| Interest income | - | (12) |
| Interest expense – long term debt ⁽¹⁾ | 808 | - |
| Interest expense – convertible debentures ⁽¹⁾ | 762 | 782 |
| | 1,570 | 759 |

⁽¹⁾ Interest expense includes accretion of debentures and long term loan transaction costs.

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13. SUPPLEMENTAL CASH FLOW INFORMATION

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

| (US\$000's) | Three Months Ended March 31, | |
|--|---------------------------------|-------|
| | 2014 | 2013 |
| Receivables from related parties | (419) | 1,285 |
| Other receivable | 3 | - |
| Prepaid expenses and deposits | 8 | (7) |
| Accounts payable and accrued liabilities | (78) | 216 |
| | (486) | 1,494 |

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

| (US\$000's) | Three Months Ended March 31, | |
|--|---------------------------------|------|
| | 2014 | 2013 |
| Accounts payable and accrued liabilities | (69) | - |
| | (69) | - |

14. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of March 31, 2014:

| (US\$000's) | 2014 | 2015 | Thereafter |
|---|-------|-------|------------|
| Operating leases ⁽¹⁾ | 62 | 83 | - |
| Long term loan – interest payments ⁽²⁾ | 2,110 | 2,800 | |
| Debentures – interest payments ⁽³⁾ | 1,932 | 1,932 | 2,898 |
| | 4,104 | 4,815 | 2,898 |

⁽¹⁾ The Corporation has extended its lease of office space for its corporate headquarters in the United States through December 2015.

⁽²⁾ Represents interest on \$15 million drawn down of the available \$25 million as at March 31, 2014 under the long term Loan Agreement.

⁽³⁾ The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the March 31, 2014 exchange rate of 1.1053 USD/CAD.

The commitments of the Corporation include a \$10 million loan commitment to Bahar Energy for the funding of the deficit cash flows associated with the 2014 Bahar Annual Work Program and Budget ("WP&B"), which is subject to change.

The Company's commitments to fund the Bahar Project are based on the annual WP&B approved by the board of Bahar Energy. Greenfields' management, through their participation at the project Steering Committee, Management Committee and Bahar Energy board of directors, provides significant input and technical guidance to the proposed annual work plan. Proposed budgets are reviewed and approved by the Management Committee (comprised of representatives from Bahar Energy and SOCAR), Bahar Energy board of directors and Greenfields board of directors. Budget approval by Bahar Energy must be

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unanimous. Failing unanimity on a work program and budget, the proposal capable of satisfying the minimum work and production obligations under the ERDPSA for the calendar year in question that receives the highest percentage vote is deemed approved. Greenfields' Chief Executive Officer currently serves as the Bahar Energy representative on the Management Committee for BEOC, which has the authority under a Joint Operating Agreement to exercise day to day supervision and direction of all matters pertaining to the joint operations.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

a) Credit risk

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

The Company's current accounts receivable balances mainly consist of receivables from related parties as result of the funding of administrative expenses and costs in connection with Bahar Energy operations under the ERDPSA, and management fees for administrative and technical support provided to an entity the Company has an equity interest. The Company historically has not experienced any collection issues with its accounts receivable and all of the balances due are considered by management to be collectable at March 31, 2014. See *Note 4 – Related Party Transactions*.

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

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

| Credit risk | March 31, 2014 | December 31, 2013 |
|----------------------------------|----------------|-------------------|
| <i>(US\$000's)</i> | | |
| Cash and cash equivalents | 2,763 | 3,068 |
| Short term investments | - | - |
| Receivables from related parties | 786 | 367 |
| Other receivable | 8 | 11 |
| | 3,557 | 3,446 |

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual

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conditions without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation.

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

The Company's financial liabilities as at March 31, 2014 and December 31, 2013 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest.

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

| Liquidity Risk <i>(US\$000's)</i> | March 31, 2014 | | | | December 31, 2013 |
|--|------------------|-----------------------|-----------------|--------|----------------------|
| | Within 1 year | Within 1 – 3 years | Over 3 years | Total | Total |
| Accounts payable and accrued liabilities | 1,081 | 750 | - | 1,831 | 2,230 |
| Long term loan – interest | 2,110 | 2,800 | - | 4,910 | 2,000 |
| Long term loan | - | 15,000 | - | 15,000 | 5,000 |
| Debentures - interest ⁽¹⁾ | 1,932 | 4,830 | - | 6,762 | 7,027 |
| Debentures | - | - | 21,465 | 21,465 | 22,307 |
| | 5,123 | 23,380 | 21,465 | 49,968 | 38,564 |

⁽¹⁾ The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments through maturity of the Debentures has been calculated at the March 31, 2014 exchange rate of 1.1053 USD/CAD. Interest payable with maturity within 1 year includes the accrual of \$644 thousand towards the next coupon interest payment due by 05/30/2014.

c) Currency risk

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

At March 31, 2014 and December 31, 2013 the Company had no forward exchange contracts in place.

d) Commodity price risk

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

At March 31, 2014 and December 31, 2013, the Company has no outstanding financial instruments,

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financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

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

At March 31, 2014, the sensitivity in net earnings for each one percent change in interest rates is not significant.

Fair value of financial instruments

The fair values of financial instruments as at March 31, 2014 and December 31, 2013 are disclosed below by financial instrument category as follows:

| | Level | March 31, 2014 | | December 31, 2013 | |
|--|-------|-----------------|------------|-------------------|------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <i>(US\$000's)</i> | | | | | |
| Assets at FVTPL | | | | | |
| Cash and cash equivalents | 1 | 2,763 | 2,763 | 3,068 | 3,068 |
| Loans and receivables | | | | | |
| Receivables from related party (a) | - | 786 | 786 | 367 | 367 |
| Other receivables | - | 8 | 8 | 11 | 11 |
| Other financial liabilities | | | | | |
| Accounts payable and accrued liabilities | - | 1,726 | 1,726 | 1,676 | 1,676 |
| Long term loan | - | 11,744 | 11,744 | 2,739 | 2,739 |
| Convertible Debentures | - | 17,670 | 17,670 | 18,284 | 18,284 |
| Liabilities at FVTPL | | | | | |
| Share based bonus | 2 | 750 | 750 | 737 | 737 |
| Derivative liability | 2 | 1,076 | 1,076 | 1,332 | 1,332 |

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

Fair Value Hierarchy

Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value measurement is based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.

Level 3 – Fair value measurement using inputs for the asset or liability that are not based on observable market data.

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16. CAPITAL STRUCTURE AND MANAGEMENT

The Company considers its capital structure to include common share capital and working capital (a measurement defined as current assets less current liabilities). In order to maintain or adjust the capital structure, the Company may from time to time issue common shares or other securities, sell assets, issue debt or adjust its operating or capital spending to manage current and projected working capital levels. See Note 2 – *Basis of Presentation and Going Concern*.

| Composition of the Company's capital structure <i>(US\$000's)</i> | March 31, 2014 | December 31, 2013 |
|--|-----------------------|--------------------------|
| Working Capital | 1,773 | 1,734 |
| Long term loan, convertible debt and shareholders' equity | 57,653 | 46,924 |
| Ratios of working capital to long term loan, convertible debt and shareholders' equity | 3% | 4% |