Consolidated Financial Statements of

GREENFIELDS PETROLEUM CORPORATION

For the years ended December 31, 2010 and December 31, 2009
(In United States Dollars)

Deloitte.

Independent Auditor's Report

To the Shareholders of
Greenfields Petroleum Corporation

We have audited the accompanying consolidated financial statements of Greenfields Petroleum Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive (loss) income and deficit, and cash flows for the years then ended, and the notes accompanying the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Greenfields Petroleum Corporation as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

May 2, 2011
Calgary, Alberta, Canada

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS

(In United States Dollars)

As at December 31, ($ thousands)	**2010** **$**	**2009** **$**
ASSETS		
Current assets		
Cash and cash equivalents (note 13)	44,839	1,326
Trade accounts receivable	3,373	-
Receivable from related party (note 7)	2,727	85
Prepaid expenses and deposits	273	33
	51,212	1,444
Restricted cash (note 14)	3,138	-
Investments (note 5)	291	326
Future income tax asset (note 9)	1,588	-
Property and equipment (note 6)	1,087	8
	57,316	1,778
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,278	94
Payable from related party (note 7)	2,361	-
	4,639	94
Non-controlling interest (note 15)	1	5
COMMITMENTS AND CONTINGENCIES (note 16)		
Shareholders' equity		
Common stock / membership units (note 10)	15	4,255
Paid in capital (note 10)	56,518	-
Warrants (note 10)	1,186	-
Contributed surplus (note 10)	1,361	-
Deficit	(6,404)	(2,576)
	52,676	1,679
	57,316	1,778

See accompanying notes to the consolidated financial statements

(signed) "John W. Harkins"	*(signed) "Garry P. Mihaichuk"*
John W. Harkins	Garry P. Mihaichuk
Director	*Director*

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE (LOSS) INCOME AND DEFICIT

(In United States Dollars)

For the years ended December 31, ($ thousands, except per share amounts)	**2010** **$**	**2009** **$**
Revenue		
Petroleum and natural gas	5,283	-
Royalties	(205)	-
	5,078	
Management service fees	336	176
Interest	-	1
	5,414	177
Expenses		
Operating	2,509	-
Transportation	153	-
General and administrative	6,485	1,395
Stock-based compensation (note 10)	1,574	-
Depreciation and amortization	17	1
Loss on investment (note 5)	226	271
Interest	-	15
	10,964	1,682
(Loss) from continuing operations before income taxes	(5,550)	(1,505)
Future income tax recovery (note 9)	(1,588)	-
(Loss) from continuing operations	(3,962)	(1,505)
Income from discontinued operations, net of tax (note 4)	135	2,691
Net (loss) income and comprehensive (loss) income	(3,827)	1,186
Deficit, beginning of year	(2,577)	(3,763)
Deficit, end of year	(6,404)	(2,577)
Per share (note 10)		
Net (loss) from continuing operations, basic and diluted	($0.44)	($0.23)
Net income from discontinued operations, basic and diluted	$0.02	$0.41
Net (loss) income, basic and diluted	($0.43)	$0.18

See accompanying notes to the consolidated financial statements

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In United States Dollars)

For the years ended December 31, ($ thousands)	2010 $	2009 $
Cash and cash equivalents provided by (used in)		
Operating activities		
Net (loss) income	(3,827)	1,186
Less: net income from discontinued operations	(135)	(2,691)
Net loss from continuing operations	(3,962)	(1,505)
Items not affecting cash:		
Stock-based compensation	1,574	-
Depreciation and amortization	17	1
Loss on investment	217	271
Future income tax recovery	(1,588)	-
	(3,742)	(1,233)
Change in non-cash operating working capital related to continuing operations (note 12)	(2,028)	(421)
	(5,770)	(1,654)
Cash flow from discontinued operating activities (note 4)	159	(405)
	(5,611)	(2,059)
Financing activities		
Proceeds from issue of common shares (note 10)	57,702	-
Agent commissions on issue of common shares	(3,173)	-
Share issue costs	(1,277)	-
Distributions paid to unitholders (note 10)	(4)	(45)
Non-controlling interest cash distributions	(28)	(679)
Repayment of notes payable (note 8)	-	(803)
Change in non-cash working capital relating to financing activities	318	-
	53,538	(1,527)
Investing activities		
Property and equipment purchases	(1,094)	(9)
Investments (note 5)	(182)	(527)
Proceeds from sale of subsidiary (note 4)	-	5,264
Restricted cash held for use in a joint venture (note 14)	(3,138)	-
	(4,414)	4,728
Change in cash and cash equivalents	43,513	1,142
Cash and cash equivalents, beginning of year	1,326	184
Cash and cash equivalents, end of year (note 13)	44,839	1,326

See accompanying notes to the consolidated financial statements

1. INCORPORATION AND NATURE OF OPERATIONS

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, 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 "**Contractor Parties**"). 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("**GAAP**"). Effective January 1, 2011, the Company will be required to report consolidated financial statements in accordance with International Financial Reporting Standards ("**IFRS**").

Basis of presentation

The 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. Investments in affiliated companies in which the Company does not have control but exercises significant influence, are accounted for on an equity basis. Investments in companies in which the Company does not maintain significant influence or joint control are accounted for on a cost basis. All inter-company transactions have been eliminated.

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

Measurement uncertainty

The preparation of financial statements in accordance with GAAP 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 consolidated financial statements. The amounts recorded for depreciation and amortization are based on the estimated useful lives of the assets. 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. In particular, the amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations and the test for impairment of property, plant 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 consolidated financial statements of changes in such estimates could be significant.

The Company's principal business activities are within the Azerbaijan. Laws and regulations affecting businesses operating in the 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.

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 our revenue recognition policy. Our allowance for doubtful accounts provides for specific doubtful receivables, as well as general counterparty credit risk evaluated using observable market information and internal assessments.

Investments

When the Company determines that it has significant influence in an investment, the investment is accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investee, computed using the consolidation method. The amount of the adjustment is included in the determination of net income and the investment account is also increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from the investee reduce the carrying value of the investment. When the Company determines that it does not have significant influence, the investment is accounted for using the cost method. Under the cost method, the investment is recorded at its cost and the carrying value is only changed when additional equity contributions are made or received or when it has been determined that there is other than temporary impairment.

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there has been a loss in value of an investment that is other than a temporary decline, the investment should be written down to recognize the loss. When a reduction to the carrying amount of an investment is required, after applying the impairment test, an impairment loss is recognized equal to the amount of the reduction.

Property and equipment

The successful efforts method is used to account for oil and gas exploration and development costs. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to dry hole expense. Exploration well costs that have found sufficient reserves to justify commercial production, but those reserves cannot be capitalized 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. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense when incurred.

Producing properties and significant unproved properties are assessed when events occur that indicate the carrying value of properties may not be recoverable. Any impairment loss is the difference between the carrying value of the asset and its fair value.

Repairs and maintenance costs are charged as an expense when incurred.

Computer equipment is recorded at cost with straight line depreciation provided for over the estimated useful life of three years. Leasehold improvements are recorded at cost with straight line amortization provided for over the term of the office lease.

Depreciation and amortization

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. 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.

Successful exploratory wells and development costs are depleted over the proved developed reserves. However, to the extent significant developed costs are incurred in connection with proved undeveloped reserves, such costs are excluded from depletion until the reserves are developed.

Stock-based compensation

Stock-based compensation 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

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. 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.

International operations conducted pursuant to the ERDPSA are reflected in the consolidated financial statements based on the Company's entitlement in such operations. Under the ERDPSA, the Company and other non-governmental partners pay all operating and capital costs for exploring and developing the concessions. The ERDPSA establishes specific terms for the Company to recover these costs ("Cost Recovery Oil") and to share in the production sharing oil. Cost Recovery Oil is determined in accordance with a formula that is generally limited to a specified percentage of production during each calendar quarter. Profit sharing petroleum is that portion of production remaining after Cost Recovery Oil and is shared between the joint venture partners and the local regime country, varying with the level of production. 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 oil and gas production until the cumulative Compensatory Production delivered equals 1.251 million barrels of oil and 22.248 billion cubic feet of natural gas calculated separately. Revenues are recorded net of Compensatory Production. Revenue represents the Company's share of entitlement pursuant to the ERDPSA and is recorded gross of any royalty payments to government entities. For our international operations, all government interests, except for income taxes, are considered royalty payments separately recorded in the Company's revenue section.

Management service fees represent revenue for administrative, operational and technical support provided to a legal entity in which the Company has an equity investment, accounted for under the cost method, and to the purchaser of the Company's discontinued operations. 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.

Asset retirement obligations

The Company does not own interests in assets for which an asset retirement obligation ("**ARO**") is normally provided. However, the Company does participate in an agreement for which it is responsible for a limited funding of such an obligation for assets managed under said agreement. It is the Company's intention to record its funded amounts as expense at the time of the funding. As at December 31, 2010 no ARO existed under the ERDPSA.

Carried interest

The ERDPSA obligates Bahar Energy to carry SOA's 20% share of expenditures in the rehabilitation area until production rates are two times 2008 production rates at which time SOA becomes fully responsible for funding their own 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. SOA's share of operating costs is recorded in operating expense and capital costs are recorded as oil and gas properties. All recoveries are recorded as revenue in the period of recovery.

Leases

The Company classifies leases entered into as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership to us are accounted for as capital leases 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 year. 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 year.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for-trading, 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. Held-for-trading financial assets 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.

Cash and cash equivalents and restricted cash are classified as held-for-trading and measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost.

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 an entity 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 held-for-trading and measured at fair value with changes therein recognized in the statement of operations. The Company currently has no held-to-maturity or available-for-sale financial assets.

Comprehensive (loss) income

Comprehensive (loss) income consists of net (loss) income and other (loss) comprehensive income ("**OCI**"). OCI may include gains and losses resulting from the foreign exchange translation of net investments in self-sustaining foreign operations and the effective portion of derivatives used as a hedging item in a cash flow hedge or net investment hedge. Accumulated other comprehensive income ("**AOCI**") is a separate component of shareholders' equity comprised of the cumulative amounts of OCI. The Company did not have transactions affecting OCI and AOCI for the periods presented.

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 depreciation 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 statement of operations as general and administrative expense.

3. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

On January 1, 2011, International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

The Company is required to release its first IFRS compliant interim financial statements for the first quarter of 2011.

4. DISCONTINUED OPERATIONS

Due to adverse market conditions as a result of the worldwide financial crisis and the desire of the Company to focus management time and attention on Azerbaijan, the Company elected to divest its interest in Greenfields Petroleum (Lahat) Company which indirectly owns a 51% working interest through its wholly owned subsidiary, Bunga Mas International Company ("**BMIC**") in the Bunga Mas PSC in South Sumatra, Indonesia. On April 14, 2009, Greenfields Petroleum (Indonesia) Company Ltd. entered into a sale and purchase agreement with APEC Indonesia Limited pursuant to which it sold Greenfields Petroleum (Lahat) Company to APEC Indonesia Limited for consideration of approximately $5.3 million, as well as a contingent net profits interest. The contingent net profits interest took the form of a deferred payment agreement dated April 24, 2009, pursuant to which APEC Indonesia Limited agreed to pay Greenfields Petroleum (Indonesia) Company Ltd. a deferred purchase price payment in installments equal to 4% of BMIC's share of the crude oil remaining after the deduction of operating costs (otherwise known under the Bunga Mas PSC as "Profit Oil"), reduced by the amount of certain Indonesian taxes. Payments begin with the first production of Profit Oil from the area of the Bunga Mas PSC, and will terminate when the installment payments total $8.0 million. To date, no production has yet been realized by BMIC from the area of the Bunga Mas PSC. The Company did not undertake any field producing or drilling activities and only engaged in shooting a seismic program which was operated by the national oil company’s seismic subsidiary. Greenfields Petroleum (Indonesia) Company Ltd. has agreed to indemnify up to a maximum of $150 thousand to APEC Indonesia Limited in respect of potential future reclamation efforts related to two previously established well locations, if required by the regulatory authorities. Greenfields Petroleum (Indonesia) Company Ltd. has also agreed to indemnify the buyer of Greenfields Petroleum (Lahat) Company for liabilities that might arise in the future for events that transpired during the period Greenfields Petroleum (Indonesia) Company Ltd. held its interest in Greenfields Petroleum (Lahat) Company. The maximum amount of the latter indemnification cannot be reasonably estimated due to its nature nor are such events considered likely. Historically, Greenfields Petroleum (Indonesia) Company Ltd. has not made any payments relating to such indemnification.

Net income from discontinued operations is composed of the following:

	2010	**2009**
($ thousands)	**$**	**$**
Management service fees	166	1,333
Project expenses	-	197
Exploration expenses	-	919
General and administrative expenses	7	845
Income (loss) from discontinued operations before gain and non-controlling interest	159	(628)
Gain on sale of discontinued operations	-	3,794
Non-controlling interest	(24)	(475)
Net income from discontinued operations	135	2,691

5. INVESTMENTS

The Company recorded equity loss of $271 thousand for the year ended December 31, 2009, in connection with its 15% equity interest in earnings of an affiliated company GFPI-USA, LLC ("**GFPI**"), a private company engaged in the exploration and development of oil and gas properties primarily in the United States. On January 1, 2010, the Company entered into an Amending and Assigning Agreement with RCH Energy Opportunity Fund II and RCH Energy Opportunity Fund III (collectively "**RCH**"). The terms of the agreement were that the Company transferred 100,000 Class A Units in the GFP entity to the RCH funds for the termination of RCH's option to participate at 15% in international business opportunities generated by the Company and the requirement that certain officers and directors maintain a controlling interest in the Company. The impact of this agreement on the Company was that the ownership interest in the GFPI entity was reduced from 15% to 5% effective January 1, 2010 and the Company was released from ownership restrictions so it can pursue various financing options for its international projects. As a result of the reduced ownership interest in the GFPI affiliate, the Company recorded a $217 thousand reduction in the carrying value of the investment and changed the accounting method to account for this investment from the equity method to the cost method, effective January 1, 2010. Using the cost method of accounting will result in changes in investment balance only when additional equity contributions are made or when it is determined that the investment is other than temporary impaired. For the year ended December 31, 2010, the Company invested an additional $182 thousand, representing its 5% share of the Phase III drilling program executed by GFPI. At December 31, 2010, the Company has determined that there is no other than temporary impairment of this investment.

6. PROPERTY AND EQUIPMENT

	2010	**2009**
($ thousands)	**$**	**$**
Office equipment	85	2
Leasehold improvements	-	8
Oil and gas properties	1,019	-
	1,104	10
Accumulated depreciation and amortization	(17)	(2)
	1,087	8

At December 31, 2010, oil and gas properties included $352 thousand in work-in-progress ($nil at December 31, 2009) of certain materials and equipment which will be used in future rehabilitation and development activities of the ERDPSA operations.

Ceiling Test

An impairment test calculation was performed on property and equipment at December 31, 2010 in which the estimated undiscounted future net cash flows based on estimated future prices associated with the proved reserves exceed the carrying amount of oil and gas property and equipment for each cost center.

The following table outlines the oil and natural gas prices used in the impairment test at December 31, 2010:

Year	**Oil Price (US$/bbl)**	**Gas Price (US$/Mcf)**
2011	99.29	3.96
2012	97.76	3.96
2013	95.60	3.96
2014	94.06	3.96
2015	93.47	3.96
Various escalation rates thereafter		

7. RELATED PARTY TRANSACTIONS

Prior to January 1, 2010, GFPI was considered a related party by virtue of the Company's significant influence over the entity. Due to the loss of significant influence over GFPI resulting from the reduced ownership from 15% to 5% on January 1, 2010, the parties are no longer considered related for accounting purposes. For the year ended December 31, 2009, the Company recorded $176 thousand in management service fees charged to GFPI. The Company also recorded credits for direct and indirect general and administrative expenses of $70 thousand charged to GFPI for the year ended December 31, 2009. At December 31, 2009, the Company had $70 thousand in accounts receivable due from GFPI related to unsettled management service fees and G&A charges which were ultimately settled in subsequent periods.

At December 31, 2010, the Company had a balance of $2.5 million in accounts receivable with Bahar Energy, an investee accounted for as a joint venture which amount is the result of general and administrative expenses funded by Company during the period following the signing of the ERDPSA on December 22, 2009 and the contract effective date of October 1, 2010. These expenses are considered cost recoverable under the ERDPSA "Pre-Effective Date Petroleum Operations" clause. Also at December 31, 2010, the Company had a $2.361 million payable balance to certain shareholders of Bahar Energy for the funding of its share of pre-effective date petroleum operation expenses.

8. NOTES PAYABLE

In June 2008 the Company entered into loan agreements with two officers of the Company whereby the officers loaned the Company a total of $0.8 million. The loans were unsecured and bore interest at a rate of 4% per annum payable only when the notes are repaid. The principal amount of the notes of $0.8 million, together with accrued interest, was repaid to the officers in April, 2009.

9. INCOME TAXES

On February 19, 2010, the Company converted to a State of Delaware corporation and became subject to income tax on calculated taxable income. The Company recorded an estimated future income tax asset of $1.588 million for the year ended December 31, 2010, which represented the estimated future income tax asset derived from the Company's operations from February 19, 2010 to December 31, 2010. Prior to the February 19, 2010, the Company was not subject to income tax as it had elected to be taxed as a partnership for income tax reporting purposes and the income or loss of the Company was included in the income tax returns of the individual members.

The components of the future tax asset are as follows:

	2010	**2009**
($ thousands)	**$**	**$**
Future income tax asset derived from U.S. tax losses	989	-
Future income tax asset derived from temporary differences	422	
Future income tax asset derived from foreign tax losses	177	-
Future income tax recovery	1,588	-

Income taxes vary from the amount that would be computed by applying the United States statutory tax rate of 35% for the year ended December 31, 2010, to loss from continuing operations as follows:

	2010	**2009**
($ thousands)	**$**	**$**
Loss from continuing operations before taxes	(5,550)	(1,505)
Statutory rate	35%	N/A
Income tax benefit at statutory rate	(1,943)	-
ISO Qualified Stock Compensation	147	-
Pre-corporation date partner tax losses	229	-

Permanent difference from share grants	(25)	-
Other	4	-
Net income taxes at 35% statutory rate	(1,588)	-

The Company has available for deduction against future United States taxable income net operating losses of $3.33 million that will expire by year 2030.

10. SHAREHOLDERS' EQUITY

On February 19, 2010, the Company was a State of Texas Limited Liability Company with issued and outstanding membership units. On February 19, 2010, the Company converted to a State of Delaware corporation, changed its name to Greenfields Petroleum Corporation and converted its issued and outstanding units to common shares of the Company on a one for one basis.

Authorized

49,900,000 Common Shares with a $0.001 Par Value

100,000 Preferred Shares with a $0.001 Par Value

Issued and Outstanding

	Number of Units	Amount $
Membership Units		
Balance, December 31, 2008	6,450,000	4,300,000
Distributions to unitholders	-	(45,000)
Balance, December 31, 2009	6,450,000	4,255,000
Issued pursuant to long term incentive plan	500,000	330,000
Value of unvested restricted units	-	(175,725)
Distributions to unitholders	-	(3,600)
	6,950,000	4,405,675
Conversion to common shares on February 19, 2010	(6,950,000)	(4,405,675)
Balance, February 19, 2010	-	-

	Number of Shares	Common Stock $000's	Paid-in Capital $000's	Total $000's
Common Shares				
Common shares issued on February 19, 2010 upon conversion in exchange for cancellation of membership units	6,950,000	7	4,399	4,406
Issued pursuant to private placements	2,984,077	3	15,996	15,999
Issued pursuant to initial public offering	4,870,250	5	40,405	40,410
Share issue costs	-	-	(4,587)	(4,587)
Issued as private placement broker commission	60,000	-	209	209
Issued upon warrant exercise	5,000	-	37	37
Stock based compensation	-	-	59	59
Balance, December 31, 2010	14,869,327	15	56,518	56,533

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On February 24, 2010, the Company completed a private placement of 1,000,000 units at CDN$5.00 per unit, each unit consisting of one common share and one-half of one warrant. Each whole warrant entitles the holder to acquire one common share at a price of CDN$5.00 per share until February 24, 2012. The Company immediately converted the CDN$5.0 million proceeds to U.S. dollars totaling $4.7 million, and after deducting cash share issue costs of $0.2 million, the Company received net proceeds of $4.5 million. The $4.7 million gross cash proceeds from the private placement were allocated $3.5 million to the common shares and $1.2 million to the 500,000 full warrants issued in the private placement. An aggregate of 60,000 compensation units were issued to brokers as commission pursuant to the private placement. Each compensation unit is comprised of one common share and one-half of one warrant issued on the same terms as for the private placement participants.

On September 14, 2010, the Company completed the September Private Placement involving the issuance of 1,984,077 Common Shares at a price of CDN$6.50 per share for gross proceeds of approximately CDN$12.9 million (CDN$12.1 million after deduction of the agents fees). The Company converted the net Canadian dollar proceeds to U.S. dollars and after deducting cash share issue costs of $0.1 million, the Company received net proceeds of $11.7 million.

Pursuant to the terms of an agency agreement dated September 30, 2010, the Company issued 4,870,250 common shares to the public for estimated gross proceeds of approximately $40.4 million (CDN$41.4 million) including the issuing of 635,250 common shares upon closing of the overallotment. Upon deducting agents' commissions and estimated expenses of $3.4 million, estimated net proceeds received were $37.0 million (CDN$37.6 million).

The original value of $176 thousand in unvested restricted shares consists of 266,250 restricted units issued to officers, employees, and contractors originally as unit grants at $0.66 per unit as part of the Company's "Long Term Incentive Plan" ("LTIP") on February 2, 2010, which LTIP was subsequently cancelled after completion of the initial grant program. Upon conversion of the Company from a Texas Limited Liability Company to a Delaware corporation on February 19, 2010, all units were converted to common shares of the Company, including the 266,250 unvested restricted units which were also converted to 266,250 unvested, restricted common shares. Under the original Unit Grant Agreement, the grantee is restricted from trading the restricted shares with third parties over the vesting period and the unvested shares are subject to forfeiture if the service requirements under the agreement are not met. The majority of the restricted shares vest over a three year period beginning on the first anniversary date of the original grant on February 2, 2010, and vest at 25% of the original grant per year. The Company will amortize this balance on a straight-line basis over the vesting period of the restricted shares. For the year ended December 31, 2010, the Company amortized $59 thousand of the balance value in unvested restricted shares, reducing the unamortized balance value at December 31, 2010 to $117 thousand.

Net (loss) income per common share is calculated using the weighted average number of common shares outstanding during the period as follows:

Net (loss) Income Per Share	**2010**	**2009**
Weighted average common shares outstanding during the year – basic	8,962,607	6,445,617
Effect of dilutive securities	-	-
Weighted average common shares outstanding during the year– diluted	8,962,607	6,445,617
Net (loss) income per share - basic and diluted	($0.43)	$0.18

For the year ended December 31, 2010, all outstanding warrants and options are anti-dilutive and have been excluded in calculating diluted per share figures.

For the year ended December 31, 2009, the Company had no dilutive securities outstanding.

Warrants

	Weighted Average	**Amount $000's**

	Number of Warrants	Exercise Price (CDN$)	
Balance, December 31, 2009	-	-	-
Issued pursuant to private placement	500,000	$5.00	1,247
Warrant issue costs, net of tax	-	-	(124)
Issued as private placement broker commission	30,000	$5.00	75
Exercise	(5,000)	$5.00	(12)
Balance, December 31, 2010	525,000	$5.00	1,186

The value of the one-half share purchase warrants issued on February 4, 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 treasury's and a 104% volatility calculated on a composite of six TSX traded companies with similar company profiles over a 90-day trading cycle. The calculated value was $1.2470 per one-half warrant which, deducted from the $4.7335 realized price per unit from the private placement, resulted in a common share price of $3.4865 and a full warrant value of $2.494. The 60,000 compensation units issued to the brokers as commission were valued at the $4.7335 per unit price of the private placement for a total of $284 thousand in non-cash commission cost which were allocated $209 thousand to the 60,000 common shares and $75 thousand to the 30,000 warrants issued to brokers.

Stock Options

	Number of Options	Weighted Average Exercise Price CDN$
Balance, December 31, 2009 and 2008	-	-
Granted	1,211,000	$6.87
Exercised	-	-
Balance, December 31, 2010	1,211,000	$6.87
Exercisable, December 31, 2010	302,750	$6.87

	Stock options outstanding			Stock options exercisable	
Exercise Price	Outstanding Options	Weighted Average Exercise Price CDN$	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price CDN$
$6.50	986,000	$6.50	9.7	246,500	$6.50
$8.50	225,000	$8.50	9.9	56,250	$8.50

During 2010, the Company has granted 1,211,000 stock options to officers, directors, employees and consultants of the Company in accordance with the Company's stock option plan. The issuance of stock options is limited to 10% of the common outstanding shares of the Company or the equivalent of 1,486,602 stock options at December 31, 2010.

The exercise prices of the stock options range from CDN$6.50 to CDN$8.50 per common share with all options expiring on various dates in 2020. For the initial grant of 986,000 stock options, 25% vested on the date of grant and 25% vests on each of May 1, 2011, May 1, 2012 and May 1, 2013, except for stock options issued to a certain executive officer, which vested as to 25% on August 31, 2010 and vests as to 25% on each of the first, second and third anniversaries of February 1, 2010. For the second grant of 225,000 stock options, 25% vested on the date of the grant and 25% vests on each November 1, 2011, November 1, 2012 and November 1, 2013.

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:

	2010
Risk-free interest rate range	1.33% - 1.49%

Expected life	4.0 years
Expected volatility	49.53%
Expected dividend	-
Fair value range of options at grant date	$2.42 - $3.30

Contributed Surplus

The following table reconciles the Company's contributed surplus balance:

($ thousand)	2010 $
Balance, January 1, 2010 and 2009	-
Stock-based compensation expense relating to stock options	1,361
Balance, December 31, 2010	1,361

At December 31, 2010, the total stock compensation expense of $1.574 million includes $0.213 million associated to the Company's unvested restricted shares which are represented as part of Paid-in Capital and $1.361 million in stock options represented in contributed surplus.

For the year ended December 31, 2009, the Company had no dilutive securities outstanding.

11. SEGMENTED INFORMATION

The Company defines its reportable segments based on geographic locations.

Year ended December 31, 2010 ($ thousands)	**Azerbaijan**	**United States**	**Total**
Revenue			
Petroleum and natural gas	5,283	-	5,283
Royalties	(205)	-	(205)
Management fees	-	336	336
	5,078	336	5,414
Expenses			
Operating	2,508	1	2,509
Transportation	153	-	153
General and administrative	3,216	3,269	6,485
Stock-based compensation	-	1,574	1,574
Depreciation and amortization	3	14	17
Loss on investment	-	226	226
	5,880	5,084	10,964
Loss from continuing operations before income tax	(802)	(4,748)	(5,550)
Future income tax recovery	(177)	(1,411)	(1,588)
Loss from continuing operations before discontinued operations	(625)	(3,337)	(3,962)
Income from discontinued operations, net of tax	-	135	135
Net loss for the year	(625)	(3,202)	(3,827)
Assets, December 31, 2010	7,991	49,325	57,316
Additions to property and equipment	1,027	67	1,094

Year ended December 31, 2009 ($ thousands)	**Azerbaijan**	**United States**	**Total**
Revenue			
Petroleum and natural gas	-	-	-
Royalties	-	-	-
Management fees	-	176	176
Interest	-	1	1
	-	177	177
Expenses			
Operating	-	-	-
Transportation	-	-	-
General and administrative	-	1,395	1,395
Stock-based compensation	-	-	-
Depreciation and amortization	-	1	1
Loss on investment	-	271	271
Interest	-	15	15
Foreign exchange loss	-	-	-
	-	1,682	1,682
Loss from continuing operations before income tax	-	(1,505)	(1,505)
Current income tax	-	-	-
Future income tax recovery	-	-	-
Loss from continuing operations before discontinued operations	-	(1,505)	(1,505)
Income from discontinued operations, net of tax	-	2,691	2,691
Net income for the year	-	1,186	1,186
Assets, December 31, 2009	-	1,778	1,778
Additions to property and equipment	-	9	9

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital related to continuing operations ($ thousands)	**2010** **$**	**2009** **$**
Change in accounts receivable	(6,015)	203
Change in prepaid expenses and deposits	(240)	(9)
Change in accounts payable and accrued liabilities	4,545	(589)
Change in taxes payable	-	(8)
Change in interest payable on related party notes	-	(18)
	(1,710)	(421)
Relating to:		
Operating activities	(2,028)	(421)
Financing activities	318	-
Investing activities	-	-
	(1,710)	(421)

Cash interest paid	-	33
Cash taxes paid	-	8

13. CASH AND CASH EQUIVALENTS

The Company periodically invests its idle cash in investments and deposits with maturity dates of less than three months. At December 31, 2010, the Company had a total of $40.0 million (December 31, 2009 - $ nil) invested in cash equivalents bearing money market interest.

14. RESTRICTED CASH

At December 31, 2010, the Company has $3.14 million (December 31, 2009 - $nil) of cash in Bahar Energy, which is restricted for use in the rehabilitation and development activities of the ERDPSA project in Azerbaijan.

15. NON-CONTROLLING INTEREST

The Company owns an 85% controlling interest in Greenfields Petroleum (Indonesia) Company Ltd. ("Greenfields Indonesia"), a British Virgin Islands company. Greenfields Indonesia is the parent company of Greenfields Petroleum (Lahat) Company which was divested of in April 2009 and its operations classified as discontinued operations in the statement of operations. Greenfields Petroleum (Lahat) Company's earnings are reflected in the Company's income from discontinued operations and adjusted to reflect the portion attributable to the non-controlling interest.

16. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2010:

($ thousands)	2011	2012	2013	2014	2015	Thereafter
Operating leases	$93	$48	-	-	-	-
Annual lease retention fees	72	72	$72	-	-	-
	$165	$120	$72	-	-	-

The Company has committed to a lease of office space for its corporate headquarters in the United States expiring in June 2012.

As part of an operating agreement, the Company has contractual commitments to GFPI to contribute up to $1.5 million to a Texas Limited Liability Company which the Company has a 5% equity interest in (note 5). As at December 31, 2010, the Company had completed 97% of its committed amount.

Pursuant to the ERDPSA, Bahar Energy is obligated to pay annual acreage fees of $216 thousand, 33.33% net to the Company, for a period of three years to the State Oil Company of Azerbaijan. In addition to the acreage fees, Bahar Energy shall complete a "Minimum Exploration Work Program", which includes the shooting, processing and interpretation of a minimum of sixty (60) square kilometers of 3-D seismic over the contract area known as Bahar 2, the carrying out of sight survey in preparation for drilling operations and the drilling of a minimum of one exploration well. The Exploration Work Program is to be carried out during the three years from effective date of the ERDPSA.

The Company has been contacted by a former consultant claiming rights to a referral fee in the form of a small interest in Greenfields Petroleum International Company Ltd. wholly-owned subsidiary of the Company that owns a 33.33% interest in Bahar Energy. Management of the Company believes the claim is without merit.

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 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 consist of trade receivables from the Company's share of oil and gas revenue generated under the ERDPSA, receivables from affiliates as result of the funding of general and 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 December 31, 2010 and 2009, 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.

The maximum credit exposure associated with cash and cash equivalents and accounts receivable is the carrying value.

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 December 31, 2010 and 2009, consists 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 the United States dollar.

As at December 31, 2010 and 2009, 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**") 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 December 31, 2010 and 2009, 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 is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate fluctuations as it does not have any bank or other outstanding debt instruments.

Fair value of financial instruments

The fair values of financial instruments as at December 31, 2010 and 2009 are disclosed below by financial instrument category as follows:

Financial Instrument	**December 31, 2010**		**December 31, 2009**	
($ thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets held for trading				
Cash and cash equivalents	44,839	44,839	1,326	1,326
Restricted cash	3,138	3,138	-	-
Loans and receivables				
Trade accounts receivable	3,373	3,373	-	-
Receivable from related party	2,727	2,727	85	85
Available for sale assets				
GFPI-USA	291	N/A	326	N/A
Other financial liabilities				
Accounts payable and accrued liabilities	2,278	2,278	94	94
Payable to related party	2,361	2,361		

Due to the short term nature of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, their carrying values approximate their fair values. The Company's available for sale assets consists of an investment in equity instruments that does not have a quoted market price in an active market; therefore, the investment is measured at cost and the fair value of this instrument cannot be reliably determined.

18. CAPITAL STRUCTURE DISCLOSURE

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 current composition of the Company's capital structure:

($ thousands)	**2010** **$**
Working capital	46,573
Shareholders’ equity	52,676

The Company is not subject to any externally imposed capital requirements.