Management's Discussion and Analysis

For the nine months ended September 30, 2011

(U.S. Dollars)

Management's Discussion and Analysis

This Management's Discussion and Analysis ("**MD&A**") for Greenfields Petroleum Corporation ("**Greenfields**" or the "**Corporation**") should be read with the unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 and the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2010. Additional information relating to Greenfields is available on SEDAR at **www.sedar.com** and on the Corporation's website at **www.greenfields-petroleum.com**. Unless stated otherwise, all references to monetary values are in the United States dollar. This document is dated November 28, 2011.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011, Greenfields adopted International Financial Reporting Standards ("**IFRS**") for Canadian publicly accountable enterprises as required by the Accounting Standards Board of Canada. Prior to the adoption of IFRS, the Corporation followed Canadian Generally Accepted Accounting Principles ("**Canadian GAAP**"). The Corporation has reported its results in accordance with IFRS starting in the first quarter 2011, with comparative IFRS information for the 2010 fiscal year.

The Note 3 to the Corporation's unaudited Condensed Consolidated Financial Statements as at and for the three and nine months ended September 30, 2011 outlines the Corporation's IFRS accounting policies, Note 4 lists new accounting pronouncements that are not yet effective but may impact the Corporation in future periods and Note 22 provides details of the Corporation's IFRS elections and reconciliations between Canadian GAAP and IFRS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding Greenfields set forth in this report includes forward looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that the Corporation believes may affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described elsewhere in this report.

Other sections of this report may include additional factors, which could adversely affect our business and financial performance. Moreover, the Corporation operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Corporation's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

The Corporation undertakes no obligation to update publicly or revise any forward-looking statements. Furthermore, the forward-looking statements contained in this report are made as of the date of this report, and the Corporation undertakes no obligation to update publicly or to revise any of the included forward-looking statements unless required by applicable securities laws, whether as a result of new information, future events or otherwise. The forward-looking statements in this report are expressly qualified by this cautionary statement.

CORPORATE OVERVIEW

On August 18, 2011 Greenfields completed a redomestication from the State of Delaware to the Cayman Islands. As a result of the redomestication the trading symbol of Greenfields on the TSX Venture Exchange in Toronto was changed to "GNF" (previously, the trading symbol was "GNF.S").

The Corporation was originally formed on November 28, 2007 as Greenfields Petroleum Inc., a corporation formed under the laws of the State of Texas. On April 4, 2008, the Corporation was converted pursuant to a Certificate of Conversion to Greenfields Petroleum, LLC, a limited liability company formed under the laws of the State of Texas. Pursuant to a resolution approved by the board of directors of Greenfields Petroleum, LLC, on January 8, 2010, the outstanding units were split on the basis of 1.5 new units for each existing unit. On February 19, 2010, pursuant to a Certificate of Conversion, Greenfields Petroleum, LLC was converted to a corporation formed under the laws of the State of Delaware and concurrently changed its name to Greenfields Petroleum Corporation.

BUSINESS OF THE CORPORATION

The Corporation 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 board of directors and management of the Corporation are experienced in financing, developing and operating international oil and gas fields, and possess the requisite technical skills and business acumen to operate in diverse international environments. The Corporation plans to expand its oil and gas assets through further farm-ins and acquisitions of licenses focusing on previously discovered and under-developed international oil and gas fields.

The Corporation's primary focus is Azerbaijan. On December 22, 2009, Bahar Energy Limited ("**Bahar Energy**"), a 33.33% joint venture of the Corporation, entered into an Exploration, Rehabilitation, Development and Production Sharing Agreement ("**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**").

Activity highlights and plans

- Workover and rehabilitation operations continue to be attempted with limited progress due to conditions of the two older-style rigs initially provided by SOCAR.
- A coiled tubing unit arrived in late November and is working on workover and rehabilitation operations. The unit is under a one-year contract.
- Facility refurbishment and upgrades on six offshore platforms continues.
- Two western-style workover rigs are expected to arrive in January 2012. The first is expected to begin work the first quarter and the second is expected to follow in early 2012. These rigs have been purpose-built for conditions expected under the Bahar ERDPSA. The deployment of these rigs will enable Greenfields to more quickly and effectively recomplete and workover 23 wells during 2012. The 2012 wells are a part of an overall 82-well program (Phase I and II) to develop behind pipe reserves in existing wellbores. These two rigs are under three-year contracts.
- Greenfields continues its efforts to execute contracts on two drilling rigs for a multi-year drilling program. It anticipates the arrival and deployment of one or two drilling rigs in late 2012. Once available, Greenfields plans to drill nine new development wells of an overall 83-well drilling program (Phase I and II) of development wells in the approved ERDPSA development program.
- Technical work continues with 2D and 3D seismic programs. The 2D is currently being shot and the 3D seismic program is to be completed in the third quarter of 2012.
- Greenfields expects to spend over $43.3 million (net to its own interest) in workover, drilling, facility upgrades and seismic work in 2012. Funds raised through its IPO in November 2010 plus cash flows from existing production are expected to be sufficient to fund the Company's net share of costs for the proposed work

programs, about half of the necessary funds are expected to be generated by cash from operations and the balance is expected from cash raised in the IPO.

Third quarter 2011 operating highlights

- The Corporation's entitlement sales volumes from production for its net interest in the Bahar ERDPSA averaged 388 bbl/d and 4,000 mcf/d or 1,055 boe/d in the quarter and 410 bbl/d and 4,069 mcf/d or 1,088 boe/d year to date.

- Through its interest in Bahar Energy, the Corporation realized average oil and gas prices of $103.93 per barrel and $3.96 per mcf in the quarter and $103.18 per barrel and $3.96 per mcf year to date.

OPERATIONAL ACTIVITIES

In the third quarter, workover operations began on well 209 in the Bahar gas field and well 464 in the Gum Deniz oil field using two locally-sourced Azerbaijan (Soviet era) drilling rigs from SOCAR. Arrival of two new western style workover rigs is scheduled for early next year. Once these rigs are in service they will improve the operational effectiveness of the workover program in both Bahar and Gum Deniz fields. Platform modifications and upgrades are currently underway on platforms in the Gum Deniz oil field in anticipation of both workover and drilling rigs arriving in 2012.

Bahar Energy has undertaken several facility upgrades and has started a refurbishing program on six offshore platforms located in the Bahar ERPDSA. The upgrades and refurbishments are to prepare for both the workover and drilling programs. A procurement program is underway to acquire associated equipment and workover materials to support two western style workover rigs and eventually the drilling rigs. The initial Phase I and II of the Plan of Development ("**POD**") includes the drilling of 83 new development wells and completing 82 workovers in existing wells located in the Gum Deniz oil field and the Bahar gas field. SOCAR approved the POD for the Contract Rehabilitation and Development Area in June 2011. The approval enables Bahar Energy to proceed with the Phase I program.

The Company, through its 33.33% affiliate Bahar Energy, has contracted the acquisition of 140 kilometers of 2D seismic. Approximately 70% of the 2D program has been shot. It is anticipated that processing and shooting of this 2D seismic program over the Bahar gas field and the Gum Deniz oil field will be completed by year end.

In the Bahar 2 ("**BE-2**") exploration area of the ERDPSA a 3D seismic program is expected to start early in 2012. A contract for the 3D seismic program is being finalized with Socar Geofizika. Acquisition and processing in the BE-2 area of a 109 square kilometer program is expected to be completed in the third quarter of 2012. If 3D seismic results confirm an attractive exploration target in the BE-2 exploration area, Bahar Energy expects to move one of the drilling rigs temporarily off the development drilling program in the Gum Deniz oil field to drill in the BE-2 area in 2013.

OVERVIEW AND SELECTED QUARTERLY INFORMATION

Selected Information

($ Thousands, except as noted)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Financial				
Revenues	6,322	84	20,682	419
Net loss	(461)	(1,127)	(1,995)	(3,158)
Per share, basic and diluted	($0.03)	($0.13)	($0.13)	($0.40)
Operating				
Average Entitlement Sales Volumes [1]				
Oil and condensate (bbl/d)	388	-	410	-
Natural gas (mcf/d)	4,000	-	4,069	-
Barrel oil equivalent (boe/d)	1,055	-	1,088	-
Average Oil Price				
Oil price ($/bbl)	$103.93	-	$103.18	-
Net realization price ($/bbl)	$100.14	-	$99.31	-
Brent oil price ($/bbl)	$113.24	-	$111.88	
Natural gas price ($/mcf)	$3.96	-	$3.96	-

Capital Items	September 30, 2011	December 31, 2010	September 30, 2010
Cash and cash equivalents	28,615	47,977	14,101
Total Assets	63,094	57,316	16,320
Working capital [2]	41,040	49,711	13,516
Shareholders' equity	49,914	50,457	14,436

[1] Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of 5% compensatory petroleum and the government's share of profit petroleum.

[2] Working capital, presented here, is current assets net of current liabilities.

QUARTERLY PERFORMANCE

($ Thousands, except as noted)	IFRS							CDN GAAP
	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenues								
Petroleum and natural gas	5,172	5,162	5,618	5,078	-	-	-	-
Transportation & storage fees	582	360	762	-	-	-	-	-
Management service fees	568	2,401	59	2,594	84	84	251	(147)
	6,322	7,923	6,439	7,672	84	84	251	(147)
Net loss	(461)	(703)	(831)	(1,710)	(1,127)	(866)	(1,165)	(479)
Per share, basic and diluted	($0.03)	($0.05)	($0.06)	($0.14)	($0.13)	($0.11)	($0.16)	($0.07)
Operating								
Average Entitlement Sales Volumes [1]								
Oil and condensate (bbl/d)	388	395	448	452	-	-	-	-
Natural gas (mcf/d)	4,000	3,862	4,349	4,455	-	-	-	-
Barrel oil equivalent (boe/d)	1,055	1,039	1,172	1,194	-	-	-	-
Prices								
Average oil price ($/bbl)	$103.93	$104.89	$100.98	$83.06	-	-	-	-
Natural gas price ($/mcf)	$3.96	$3.96	$3.96	$3.96	-	-	-	-
Capital Items								
Cash and cash equivalents	28,615	30,295	36,328	47,977	14,101	3,596	5,362	1,326
Total Assets	63,094	63,968	62,995	57,316	16,320	5,010	5,789	1,778
Working capital [2]	41,040	47,247	48,876	49,711	13,516	3,223	5,090	1,350
Shareholders' equity	49,914	49,971	50,230	50,457	14,436	3,177	4,015	1,679

[1] Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes sold net of 5% compensatory petroleum and the government's share of profit petroleum.

[2] Working capital, presented here, is current assets net of current liabilities.

RESULTS OF OPERATIONS

Revenues

($ Thousands)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Petroleum	3,715	-	11,554	-
Natural gas	1,457	-	4,399	-
Total petroleum and natural gas	5,172	-	15,953	-
Transportation and storage fees	582	-	1,704	-
Management service fees	568	84	3,025	419
Total revenues	6,322	84	20,682	419

The Corporation has no comparative petroleum or natural gas operations prior to October 2010. Accordingly, the results of operations for the three months ended September 30, 2011 will be compared to and contrasted with the three months ended June 30, 2011.

Hydrocarbon revenues in the three month periods ended September 30, 2011 and June 30, 2011 for crude oil were $3.7 million and $3.8 million, respectively, and for natural gas were $1.5 million and $1.4 million, respectively. The average sales prices for crude oil during the three month periods ended September 30, 2011 and June 30, 2011 was $103.93/bbl and $104.89/bbl, respectively. Natural gas was sold at a fixed price of $3.96/mcf in each quarter. The minor reduction in crude oil volumes and prices were more than offset by higher natural gas production resulting in hydrocarbon revenues being essentially flat quarter to quarter.

Total average daily entitlement sales volumes were slightly higher for the three month period ended September 30, 2011 compared to the three month period ended June 30, 2011 with lower crude oil volumes being more than offset by higher natural gas volumes. For the three months ended September 30, 2011 average daily entitlement sales volumes for crude oil, natural gas, and barrels of oil equivalent were 388 bbl/d, 4,000 mcf/d and 1,055 boe/d compared to 395 bbl/d, 3,862 mcf/d and 1,039 boe/d for the three months ended June 30, 2011.

Net realization price for crude oil and natural gas [1]

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
$/bbl				
Average crude oil sales price	103.93	-	103.18	-
Transportation fees	(2.70)	-	(2.74)	-
Marketing fees	(1.04)	-	(1.07)	-
Other costs [2]	(0.05)	-	(0.06)	-
Crude oil	100.14	-	99.31	-
$/mcf				
Natural gas	3.96	-	3.96	-

[1] "Net realization price" is a non-IFRS and non-GAAP measurement. The net realization price for crude oil is calculated by deducting from the average crude oil sales price the average costs per barrel for transportation, marketing, port storage, customs, banking fees and certification fees. There are no deductions from the sales price of natural gas.

[2] Other costs consist of port storage, customs, banking fees and certification fees.

Transportation and storage fees

For the three month periods ended September 30, and June 30, 2011, the Corporation recognized transportation and storage revenue of $582 thousand and $360 thousand, respectively, under a fee arrangement to supply excess capacity available in the Corporation's interest in the ERDPSA. The contract was finalized in May 2011 and had a retroactive effective date of October 1, 2010. For the nine months ended September 30, 2011 the Corporation has recorded revenue of $1.7 million which includes net revenue from the fourth quarter 2010. The increase in fees from the previous quarter is attributable to higher volume throughput and an escalation in the rates charged for transportation and storage.

Management and service fees

For the three and nine months ended September 30, 2011, the Corporation recorded revenue of $59 thousand and $177 thousand in management fees ($84 thousand and $419 thousand respectively in 2010). Excluding a final $167 thousand installment in January 2010 for consulting services provided to the purchaser of the Corporation's Greenfields Petroleum (Lahat) Company subsidiary, all other management fees relate to a management services agreement with GFPI-USA, LLC. Management fees are renegotiated annually based on the approved work program of GFPI-USA and the amount of management, technical and administrative services expected to be provided by the Corporation. Agreed monthly management fees for 2011 are $19.6 thousand versus $28 thousand for 2010.

Also, for the three months ended September 30, 2011, the Corporation recorded service fee revenue of $509 thousand for technical assistance provided to BEOC during the third quarter 2011. These services were provided under a Master Service Agreement ("**MSA"**) between the Corporation and BEOC as provide for under the Joint Operating Agreement of the ERDPSA.

Operating expenses

For the three and nine months ended September 30, 2011, the Gum Deniz and Bahar fields operating expenses totaled $3.9 and $12.2 million, respectively. The third quarter 2011 compares favorably to the $4.4 million recorded for the three months ended June 30, 2011. The third quarter reduction in operating expenses compared to the second quarter was a result of operations changing from those activities dominated by expensed workovers in the second quarter, (for example sand cleanout, paraffin removal and minor tubing replacement), to capital workovers in the third quarter that included new zone perforations and the installation of electronic submersible pumps or ESP's.

The capital workover activities, as the ERDPSA project moves into the main rehabilitation and development plan of work, will continue for the foreseeable future as western style workover rigs are placed into service during 2012.

Exploration and evaluation expenses

During the three and nine months ended September 30, 2011, the Corporation incurred $214 thousand and $570 thousand, respectively, in evaluation expenses related to 2D seismic acquisition for the Bahar and Gum Deniz fields (2010 - $ nil). The $214 thousand incurred during the current quarter compares favorably to the $356 thousand recorded in the previous quarter due to a reduction in the number of kilometers of 2D seismic acquisition acquired quarter to quarter.

Administrative expenses

($ Thousands)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Employee wages and benefits	661	397	2,241	1,191
Stock-based compensation	464	743	1,380	925
Professional service costs	1,741	591	4,272	1,678
Office, travel and other	502	317	1,558	814
Foreign office costs	1,057	-	2,587	-
	4,425	2,048	12,038	4,608
Recovery of Administrative expense through service fees billed to affiliates	(568)	(84)	(3,025)	(419)
Administration expense net of recovery	3,857	1,964	9,013	4,189

Administrative expenses for the three and nine months ended September 30, 2011, excluding non-cash stock-based compensation and foreign office administrative costs, were $2.9 million and $8.1 million respectively (2010 - $1.3 million and $3.7 million). The increase in administrative expenses with respect to the same periods in 2010 are mainly attributable to higher staffing levels and travel costs associated with supporting the ERDPSA project in Azerbaijan, international business development activities and professional fees associated to the redomestication of the Corporation to the Cayman Islands. Most of the increase in expenses attributable to the ERDPSA is recovered through billings for services provided to the project under a Master Service Agreement and Affiliate Service Orders ($568 and $3,025 for the three and nine months ended September 30, 2011).

Foreign office administrative expenses for the three and nine months ended September 30, 2011 were $1.1 million and $2.6 million respectively. Administrative expenses for the three months ended September 30, 2011 and June 30, 2011 are essentially flat at $1.1 million and $1.2 million, respectively.

There were no foreign office administrative expenses for the three months and nine months ended September 30, 2010 due to the ERDPSA project in Azerbaijan not being effective until October 1, 2010.

Stock-based expenses

Stock-based compensation expense for the three and nine months ended September 30, 2011 was $464 thousand and $1.4 million respectively (2010 - $743 thousand and $925 thousand). Stock-based compensation expenses were lower during the third quarter 2011 versus 2010 due to the initial grant of stock options to all employees, directors and permanent contractors during the third quarter 2010. The higher expenses year to date 2011 versus 2010 were attributable to stock options granted to new employees during 2011 and the amortization of options previously granted to employees, directors and permanent contractors in the third and fourth quarter 2010.

In accordance with the Corporation's Stock Option Plan, a total of 1,211,000 stock options were issued during 2010, 30,000 in Q1 2011,100,000 in Q2 2011 and 100,000 in Q3 2011. The exercise prices of the stock options ranges from CDN$6.50 to CDN$9.50 per common share with all options expiring on various dates between years 2020 and 2021.

For the initial 2010 grant of 986,000 stock options, 25% vest on the date of grant and 25% vest on each of May 1, 2011, May 1, 2012 and May 1, 2013, except for stock options issued to a certain executive officer, which vest as to 25% on August 31, 2010 and 25% vest on each of the first, second and third anniversaries of February 1, 2010. For the second 2010 grant of 225,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of November 16, 2010.

For the third grant of 30,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of March 14, 2011. For the fourth grant of 100,000 stock options,

25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of May 19, 2011. For the fifth grant of 100,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of September 1, 2011.

A total of 48,750 stock options initially granted to a prior member of the Corporation's board of directors were forfeited as result of the member's resignation on April 19, 2011.

The Corporation has a total of 1,392,250 outstanding options as at September 30, 2011.

As a provision of the Corporation's Stock Option Plan, upon exercising his or her options, an optionee may satisfy his or her tax withholding obligations (i) by surrendering to the Corporation 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 option the number of common shares having a market value equal to the amount required to be withheld.

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

Black-Scholes option pricing model assumptions	
Risk-free interest rate range	1.33% - 2.00%
Expected life	4.0 years
Expected volatility range	44.29% - 49.53%
Expected dividend	-
Forfeiture	-
Range of fair values of options at grant date	$2.42 - $3.76

Income from short term investments

For the three and nine months ended September 30, 2011, the Corporation recorded $72 thousand and $200 thousand as income from short term investments ($nil for same periods of 2010). This income relates to interest received or accrued from investments in corporate bonds and dividends from income-producing mutual funds. During the quarter ended September 30, 2011, the Corporation divested $4.6 million from income-producing mutual funds and invested the proceeds in money market funds.

Changes in fair value of warrants

The Corporation issued warrants in conjunction with a private placement in February 2010 which have an exercise price denominated in Canadian dollars whereas the Corporation's functional currency is U.S. dollars.

Under IFRS, these warrants are considered a derivative financial liability due to "foreign currency" fluctuations and the resulting variable proceeds the Corporation will realize for each share issued if such warrants are exercised, and because they were not offered pro rata to all existing owners of the same class of shares. A derivative financial liability is measured at fair value on each balance sheet date with changes in fair value recognized in profit or loss.

For the three and nine months ended September 30, 2011, the derivative liability decreased by $1.17 million. For the same periods of 2010, the derivative liability decreased by $183 thousand and $113 thousand, respectively. The equivalent non-cash derivative gains or losses for those amounts were recorded in the respective periods. For the year ended December 31, 2010, the derivative liability increased by $908 thousand and the respective non-cash derivative loss for this amount was also recognized through profit or loss in that period.

The Corporation has a total of 522,000 outstanding warrants as of the date of this MD&A.

Income taxes

($ Thousands)	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Current	(737)	(657)	(1,476)	(1,176)
Deferred	(15)	-	72	-
Total provision for income taxes	(752)	(657)	(1,399)	(1,176)

For the three and nine months ended September 30, 2011, the Corporation recorded a provision for net income tax expense (recovery) of ($752) thousand and ($1.4) million versus ($657) thousand and ($1.2) million for the same periods in 2010

The Corporation, through its consolidated joint venture Bahar Energy, is subject to a 22% income tax rate in Azerbaijan on net earnings generated from the ERDPSA. The Corporation is also subject to taxes in the United States on consolidated results at an effective rate of 35%. Foreign tax payments associated with the ERDPSA qualify for foreign tax credits in the United States.

For the three and nine months ended September 30, 2011, stock-based compensation associated with qualified Incentive Stock Options (“**ISO”**) and a decrease in the fair value of the Corporation’s outstanding warrants are included in the Corporation’s net operating losses, neither of which are deductible for the purpose of US income tax calculations. The ISO stock-based compensation expense has the effect of lowering the Corporation’s effective tax rate below the maximum statutory tax rate in the US while changes in the fair value of warrants can increase or decrease the effective reported tax rate of the Corporation depending on whether the value of the warrants increase or decrease for the period. The effect of a large decrease in the fair value of warrants recorded in the third quarter 2011 resulted in effective tax rates of 62% and 42% for the current year versus 37% and 27% for the same period in 2010.

Per share information

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Net loss per share, basic and diluted	($0.03)	($0.13)	($0.13)	($0.40)

Net loss and comprehensive loss

($ Thousands)	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Net loss and comprehensive loss	(518)	(1,127)	(2,025)	(3,158)

EQUITY CAPITAL

Authorized capital structure of the Corporation is 49,900,000 common shares and 100,000 preferred shares, each at US dollars $.001 par value. As of the date of this report, the Corporation had 14,848,380 common shares outstanding and no preferred shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

($ Thousands)	September 30, 2011	December 31, 2010	September 30, 2010
Working Capital	41,040	49,711	13,516
Shareholders' Equity	49,914	50,457	14,436
Ratio of Working Capital to Shareholders' Equity	82%	99%	94%

The Corporation expects to continue financing its 2011 contractual commitments under the ERDPSA with funds from Bahar Energy operations, cash on hand and short term investments. If the Corporation undertakes any major acquisitions, management would expect to finance the transactions by issuing debt securities, equity securities or a combination of both in a cost effective manner.

Off-balance sheet arrangements

The Corporation does not have any special purpose entities, nor is it party to any transactions or arrangements that would be excluded from the Corporation's balance sheet.

Related party transactions

A detailed discussion of related party transactions is included in Note 8 to the unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011.

Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 19 to the unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011.

Contractual commitments and obligations

The Corporation has assumed various contractual commitments and obligations in the normal course of operations and financing activities. These obligations and commitments are included in the 2010 audited financial statements and MD&A. There have been no other significant developments since year end, other than the item noted below.

On April 15, 2011, the Corporation signed the Common Term Agreement ("**CTA**") between the shareholders of Bahar Energy whereby each shareholder agrees to grant a credit facility to Bahar Energy up to specific amounts during a commitment period. As part of the CTA, the Corporation has also signed the 2011 Loan Agreement to fund up to $17.4 million during the period January 1, 2011 to December 31, 2011. During May 2011, the Corporation made the first advance under the 2011 Loan Agreement for $8.7 million. (See also Note 8, Related Party Transactions in the unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011.)

FINANCIAL AND LIQUIDITY RISKS

The Corporation anticipates that it will make capital expenditures for the farm-in, acquisition of licenses, exploration, development, and production of oil and natural gas in the future. On an ongoing basis, the Corporation will typically plan to utilize three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt where deemed appropriate and new equity issues, if available at favorable terms. In addition, the Corporation may contemplate the sale of producing properties or the sale of other assets to fund its contractual obligations.

Funds flow

Funds flow is influenced by many factors, which the Corporation cannot control, such as commodity prices, interest rates and changes to existing international government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, the Corporation may have limited ability to expand the capital necessary to undertake or complete future drilling programs. In such circumstances, the Corporation would be required to either reduce the level of its capital expenditures or supplement its capital expenditure program with additional debt and/or equity financing.

There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations and business prospects.

Issuance of debt

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Supply of service and production equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity, these supplies and services can be difficult to obtain. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. The Corporation attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors. There can be no assurances that these relationships will increase the availability or cost effectiveness of the supplies and services.

ABBREVIATIONS

Abbreviation	Description
bbl	barrels
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
km	kilometer
sq km	square kilometer