GREENFIELDS PETROLEUM CORPORATION

Management's Discussion and Analysis

For the three and six months ended June 30, 2012

(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 in conjunction with the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2012 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2011. 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 August 29, 2012.

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 AND OPERATIONS

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 consists of the producing Bahar gas field and the Gum Deniz oil fields and the Bahar 2 Exploration area. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the "**Contractor Parties**").

Second quarter 2012 operating and financial highlights

- The Corporation's entitlement sales volumes from production for its net interest in the Bahar ERDPSA averaged 442 bbl/d and 3,880 mcf/d or 1,089 boe/d in the quarter and 389 bbl/d and 3,889 mcf/d or 1,037 boe/d year-to-date.

- Through its interest in Bahar Energy, the Corporation realized average oil prices of $97.44/bbl for the quarter and $102.36/bbl year-to-date. Realized gas prices have remained constant during 2012 at $3.96/mcf.

- On May 30, 2012 the Corporation issued CAD $23.7 million of convertible unsecured subordinated debentures (USD$22.9 million). The Debentures carry a 9.0% annual rate of interest from the date of issue with interest payable semi-annually in arrears on May 31 and November 30 of each year starting on November 30, 2012 and will mature and be repayable on May 31, 2017. The net proceeds of the Offering will be used to fund the workover and drilling program in Gum Deniz Oil Field and Bahar Gas Field, and for general corporate and working capital purposes.

Operating highlights and plans

- Work activity during the second quarter focused on production optimization and preparation for drilling and workover activity.

- Well maintain and recompletion activities continued during the quarter using Soviet-era rigs contracted from SOCAR. The workovers have served to maintain and slightly improve field production levels until new wells can be added for increased production. Well service interventions, selected workovers, and recompletions will continue to be performed using these rigs which are suitable and economical for less challenging work. Two wells were recompleted into new zones providing an estimated 120 bbl/d increase in production.

- Two new Western-style rigs have arrived in Baku for work on the Bahar Project. These rigs are designed for the operational requirements of the Gum Deniz and Bahar fields and are under three-year contracts. During the second quarter 2012, the rigs were being prepared for mobilization, installation and commissioning in the third quarter. The rig designed for drilling will initially operate from Platform 2 in the Gum Deniz oil field and the workover rig from Platform 196 in the Bahar gas field.

- To accommodate rig operations on existing platforms, significant modifications had to be made. The existing sub-structures were removed, pipelines were reconfigured to accommodate the rig footprint and pile caps, skid rails and reinforcing deck plates were installed. The new rigs are currently being mobilized to the platforms for installation and commissioning.

- The drilling rig assigned to the Gum Deniz field for platform work will drill development wells in the under-developed northern area of the Gum Deniz field. One or two wells are expected to be drilled with this rig in 2012 with drilling activity to continue into 2013 and beyond.

- The workover rig assigned to the Bahar field (Platform-196) will perform workovers to repair and recomplete gas-condensate wells that have, in most cases, been shut in for years due to operational difficulties. These wells are believed to have significant potential in untested zones behind-pipe. Two to three recompletions in the Bahar field are now expected to be performed in 2012.

- Subsurface evaluation in the northern area of Gum Deniz field identified a northern extension of the field, which is believed to be undrained of hydrocarbons. This area is attractive because it can be drilled from Gum Island using a land-based rig. Land rigs are less expensive to operate and readily available. BEOC has contracted for the Great Wall 88 rig and spudded the first well on August 20th, 2012. It is anticipated that the well will yield early production and reserves growth, and its success could lead to multiple new drilling targets in the northern extension.

- The Gum Deniz field development plan includes a total of 23 new wells in the northern area of the field. These wells will be drilled from existing platforms and island locations. A total of 60 wells are planned to be drilled in the south Gum Deniz field on new platforms presently in the design stage. Additional drilling rigs will be necessary to complete this program and rig options are now under review.

- Two seismic data acquisition programs, the 2D in the Bahar and Gum Deniz fields and the 3D in the Bahar-2 exploration area and southern portion of the Bahar field, are expected to be completed in 2012. After delays related to vessel suitability and weather, the 140-kilometer 2D project was completed in April 2012. The data quality is good and processing was completed in June. Interpretation is underway and is targeted for completion by the end of the third quarter 2012.

- The 3D project commenced in June 2011 and after acquiring 45 square kilometers of 3D data, the work was suspended in February 2012 due to bad winter weather conditions. Acquisition recommenced May 7, 2012. The completion of the acquisition program is targeted for the end of the third quarter. Processing and interpretation will follow during the fourth quarter. If the interpretation confirms an attractive exploration prospect in the Bahar-2 exploration area, Bahar Energy will develop an appropriate drilling strategy to evaluate the prospect. Drilling in the Bahar-2 area could occur in late 2013 or early 2014.

- During 2012 Bahar Energy has targeted drilling 4 wells in the Gum Deniz field and recompleting 16 wells in Gum Deniz and Bahar fields. The drilling and recompletion programs will continue into 2013 and beyond, and include a total of 83 new wells in the Gum Deniz field and 8 in the Bahar field. Total planned recompletions include 29 in the Gum Deniz field and 40 in the Bahar field.

SELECTED QUARTERLY INFORMATION

(US$000's,except as noted)	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Financial				
Revenues	6,326	7,923	12,323	14,362
Net (loss) income	(4,805)	(703)	(7,859)	(1,534)
Per share, basic and diluted	($0.31)	($0.05)	($0.51)	($0.10)
Operating				
Oil and condensate (bbl/d)	442	395	389	421
Natural gas (mcf/d)	3,880	3,862	3,889	4,104
Barrel oil equivalent (boe/d)	1,089	1,039	1,037	1,105
Average Oil Price				
Oil price ($/bbl)	$99.40	$104.89	$104.41	$102.82
Net realization price ($/bbl)	$97.44	$100.81	$102.36	$98.92
Brent oil price ($/bbl)	$108.04	$117.01	$113.42	$111.18
Natural gas price ($/mcf)	$3.96	$3.96	$3.96	$3.96
Capital Items				
Cash and cash equivalents			29,917	30,295
Total Assets			95,900	63,968
Working capital [2]			33,961	47,247
Shareholders' equity			33,541	49,971

SUMMARY OF QUARTERLY RESULTS

(US$000's,except as noted)	IFRS							
	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial								
Revenues								
Petroleum and natural gas	5,396	4,791	5,023	5,171	5,162	5,618	5,078	-
Transportation & storage fees	418	544	431	581	360	762	-	-
Management service fees	512	662	666	568	2,400	59	2,594	84
	6,326	5,997	6,120	6,320	7,922	6,439	7,672	84
Net loss	(4,805)	(3,054)	(14,543)	(461)	(703)	(831)	(1,710)	(1,127)
Per share, basic and diluted	($0.31)	($0.20)	($0.98)	($0.03)	($0.05)	($0.06)	($0.14)	($0.13)
Operating								
Average Entitlement Sales Volumes [1]								
Oil and condensate (bbl/d)	442	335	360	388	395	448	452	-
Natural gas (mcf/d)	3,880	3,899	4,276	4,000	3,862	4,349	4,455	-
Barrel oil equivalent (boe/d)	1,089	985	1,072	1,055	1,039	1,172	1,194	-
Prices								
Average oil price ($/bbl)	$99.40	$111.01	$104.71	$103.93	$104.89	$100.98	$83.06	-
Natural gas price ($/mcf)	3.96	$3.96	$3.96	$3.96	$3.96	$3.96	$3.96	-
Capital Items								
Cash and cash equivalents	29,917	13,647	25,289	28,615	30,295	36,328	47,977	14,101
Total Assets	95,900	66,798	61,127	63,094	63,968	62,995	57,316	16,320
Working capital [2]	33,961	17,573	29,674	41,040	47,247	48,877	49,710	13,516
Shareholders' equity	33,541	37,009	36,521	49,914	49,971	50,230	50,457	14,436

[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 (excluding warrants liability).

RESULTS OF OPERATIONS

Revenues

(US$ 0000's)	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Petroleum	3,998	3,770	7,384	7,838
Natural gas	1,398	1,392	2,803	2,941
Total petroleum and natural gas	5,396	5,162	10,187	10,780
Transportation and storage fees	418	360	962	1,122
Management service fees	512	2,401	1,174	2,460
Total revenues	6,326	7,923	12,323	14,362

The petroleum revenues for the three and six months ended June 30, 2012 were $4.0 million and $7.4 million, respectively, compared to $3.8 million and $7.8 million, respectively, for the same periods in 2011. Natural gas revenues for the three and six months ended June 30, 2012 were $1.4 million and $2.8 million, respectively, compared to $1.4 million and $2.9 million, respectively, for the same periods in 2011. Petroleum and natural gas revenues were net to the Corporation after deduction of the government's share of profit petroleum revenue and compensatory petroleum production.

The average prices received for crude oil during the three and six months ended June 30, 2012 were $99.40/bbl and $104.41/bbl, respectively, compared to average prices of $104.89/bbl and $102.82/bbl for the same periods in 2011. The price for natural gas remained contractually constant at $3.96 per thousand cubic feet.

The crude oil average daily entitlement production for the three and six months ended June 30, 2012 was 442 bbl/d and 389 bbl/d, respectively, a 12% increase for the quarter and an 8% decline year to date when compared to the production of 395 bbl/d and 421 bbl/d for same periods in 2011. Natural gas daily entitlement production for the three and six months ended June 30, 2012 were 3,880 mcf/d and 3,889 mcf/d, respectively, representing a slight decline when compared to the production of 3,862 mcf/d and 4,104 mcf/d for the same periods in 2011.

In terms of oil equivalent daily production, during the three and six months ended June 30, 2012 the Corporation recorded production of 1,089 boe/d and 1,037 boe/d, respectively, which represented a 5% increase for the quarter but a 6% decline year to date when compared to production of 1,039 boe/d and 1,105 boe/d for the same periods in 2011.

Crude production declines year to date 2012 versus 2011 are attributed to severe winter weather conditions in Azerbaijan during the winter of 2012, which kept crews from needed well maintenance work and caused equipment failures requiring some wells to be shut-in. The major contributing factor to lower natural gas production was the loss of the Bahar field 209 well which went down in early April 2011. The shut-in of this well was a result of a blockage that could not be penetrated or removed. The well remains shut-in to this date.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
$/bbl				
Average crude oil sales price	99.40	104.89	106.59	102.82
Transportation fees	(0.93)	(2.85)	(2.15)	(2.76)
Marketing fees	(1.02)	(1.17)	(1.07)	(1.08)
Other costs [2]	(0.01)	(0.06)	(0.04)	(0.05)
Crude oil	97.44	100.81	103.33	98.92
$/mcf				
Natural gas	3.96	3.96	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 and six months ended June 30, 2012, the Corporation recorded transportation and storage revenues of $0.4 million and $1.0 million, respectively, compared to the same periods in 2011, the Corporation recorded $0.4 million and $1.1 million, respectively. The transportation and storage revenues are based on a fee arrangement to supply excess capacity available in the Corporation's interest in the ERDPSA to another local producer. The contract was finalized in May 2011 and had a retroactive effective date of October 1, 2010. The above cited revenue of $1.1 million for the six months ended June 30, 2011 includes transportation revenues attributable to the fourth quarter 2010.

Management and services fees

For the three and six months ended June 30, 2012, the Corporation recorded revenues of $45 thousand and $90 thousand, respectively, in management fees compared to $59 thousand and $118 thousand, respectively, for the same periods in 2011. Management fees relate to monthly revenues received under a management services agreement with GFPI-USA, LLC. Monthly rates are set annually based on the amount of management, technical and administrative services expected to be provided by the Corporation in support of the entity's work program. Agreed monthly management fees in effect for 2012 and 2011 were $15 thousand and $19.6 thousand, respectively.

For the three and six months ended June 30, 2012, the Corporation recorded revenues of $0.5 million and $1.1 million, respectively, in services fees compared to $2.4 million and $2.4 million, respectively, for the same periods in 2011 for administrative, technical and support assistance provided to BEOC. These services are provided under a Master Service Agreement ("**MSA**") between the Corporation and BEOC supported by individual Affiliate Services Orders ("**ASO**") detailing specific services to be provided. During the second quarter 2011 the MSA was finalized resulting in the retroactive billing for services from October 2010 through June 2011.

Operating expenses

The Corporation's operating expenses for the Bahar project were $4.5 million and $9.9 million, respectively, for the three and six months ended June 30, 2012 compared to $4.4 million and $8.3 million, respectively, for the same periods in 2011. Higher expenses in the first quarter 2012 were caused by severe wind and sub-freezing temperatures that impacted field operations and resulted in additional stand-by charges, hindered performance of flow lines and caused failures in some older equipment. Additional rental equipment was required to help maintain crude mobility in the tanks and flow lines and large quantities of spare parts were consumed and replaced. Additional compressors were rented to fill in for down units and employee overtime was authorized in an attempt to maintain petroleum production levels. The higher costs were driven by higher maintenance, marine transportation stand-by, equipment rentals and payroll expenses. All these factors contributed to the increase in operating expenses year to date 2012 versus 2011. With the warming spring temperatures in the second quarter production, operating activities have returned to normal.

Exploration and evaluation expenses

For the three and six months ended June 30, 2012, the Corporation incurred $1.5 million and $1.8 million, respectively, in exploration and evaluation expenses primarily associated with the 3D seismic program being conducted over the Bahar 2 exploration areas. During the three and six months ended June 30, 2011, the Corporation recorded $0.4 million in exploration and evaluation expenses related to 2D seismic work conducted in the producing Bahar gas and Gum Deniz oil fields.

Pre-licensing costs

For the three and six months ended June 30, 2012, the Corporation incurred $0.3 million and $0.5 million, respectively, compared to $0.3 million and $0.7 million for the same periods in 2011. Pre-licensing costs are associated with other business development activities mainly focused on the prospecting and evaluation of opportunities to acquire working interests in properties located in South America and South East Asia.

Administrative expenses

	Three months ended June 30		Six months ended June 30	
(US$ 000's)	2012	2011	2012	2011
Cash expenses				
Employee wages and benefits	1,229	796	2,196	1,580
Professional service costs	936	1,509	1,666	2,115
Office, travel and other	553	386	1,213	806
Foreign office costs	438	1,161	1,040	1,530
Total cash expenses	3,156	3,852	6,115	6,031
Share-based payment expense	550	428	929	916
Total gross administrative	3,706	4,280	7,044	6,947
Services fees billed to affiliates	(467)	(2,342)	(1,084)	(2,342)
Administrative expenses net of services fees	3,239	1,938	5,960	4,605

Administrative expenses for the three and six months ended June 30, 2012, excluding non-cash share-based payments expense, were $3.1 million and $6.1 million, respectively, compared to $3.9 million and $6.0 million, respectively, for the same periods in 2011. Employee wages and benefits increases during 2012 were the result of increased staffing levels in the corporate office and the addition of foreign staff to support the new representative office in Azerbaijan for Greenfields Petroleum International Company, Ltd., which holds the 33.33% interest in Bahar Energy. Professional services were reduced during 2012 as the costs associated with the redomestication of the Corporation in 2011 from the State of Delaware to the Cayman Islands were eliminated. Office, travel and other expenses increased during 2012 due to additional travel costs related to support activities associated with the Bahar project. The majority of increased costs associated with manpower and travel expenses in support of the Bahar project are recovered through billings, at cost, to BEOC on ASO's. See "*Management and Services Fees*" note above for more information on ASO billings.

Foreign office administrative expenses for the three and six months ended June 30, 2012 were $0.5 million and $0.9 million, respectively, compared to $0.4 and $0.9 million for the same periods in 2011. All foreign office costs are attributable to the administrative functions of the Bahar project reflected in the accounting records of BEOC.

Share-based payments

The share-based payments recorded by the Corporation are associated with share options and restricted share grants and shareholder settled transactions. Share-based payment expenses for the three and six months ended June 30, 2012 were $0.6 million and $0.9 million. For the same periods in 2011, expenses were $0.4 million and $0.9 million, respectively.

Share Options

A total of 80,000 share options were issued in February 2012. As at June 30, 2012 a total of 1,671,000 share options have been issued in accordance with the Corporation's Share Option Plan at an average exercise price of CAD$ 7.62. With the exception of the grant described below, the share options issued vest 25% at date of grant and 25% on each of the first, second and third anniversaries of grant date.

In June 2012 the Corporation completed the award of 150,000 share options at an average exercise price of CAD$13.00 per common share. The constructive obligation for this award was established in January 2012 and fair valued at $0.1 million using the Black-Scholes option pricing model assuming a risk-free interest rate of 0.71%, four years expected life and expected volatility of 40%. The share options will vest over a 12 month period, 1/12 each month. At June 30, 2012, 50% of the vested portion of the award has been expensed with the remaining portion scheduled to be expensed by December 31, 2012.

For the three and six months ended June 30, 2012, the Corporation recorded share options expense of $0.2 million and $0.5 million, respectively, compared to $0.4 million and $0.9 million, respectively, for the same periods in 2011. The expense increases related to share options awarded during 2012 for new employees were more than offset by the reduction in monthly amortization expense related to older vested grants.

Grant Date	Number Outstanding	Expiry Date	Remaining Contractual Life (years)	Exercise price (CAD$)	Number Exercisable
Aug. 31, 2010	771,000	Aug. 31, 2020	8.18	6.50	562,000
Nov. 16, 2010	225,000	Nov. 16, 2020	8.39	8.50	112,500
Nov. 16, 2010	30,000	Nov. 16, 2021	8.71	9.50	15,000
May 19, 2011	100,000	May 19, 2021	8.89	9.00	50,000
Sept. 1, 2011	100,000	Sept. 1, 2016	4.18	8.00	25,000
Feb. 1, 2012	80,000	Feb. 1, 2017	4.18	6.00	20,000
Jan. 31, 2012	150,000	Jan. 31, 2017	4.59	13.00	75,000
	1,456,000				859,500

As at June 30, 2012 the Corporation has a total of 1,456,000 share options outstanding, 859,500 of which are exercisable with remaining contractual lives ranging from 4.2 to 8.7 years. The average exercise price of exercisable share options is CAD$7.56.

As a provision of the Corporation's Share 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 Corporation 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.

Restricted Share Awards

On February 1, 2012 40,000 restricted share grants were awarded and shares of the Corporation were issued to a new officer. The shares vest 25% at grant date and 25% on the anniversary date thereafter in 2013, 2014 and 2015. The shares were valued at CAD$6.00, the closing price of the Corporation's common shares on January 31, 2012, with the 25% vested on grant date included in the Corporation's share-based payments expense during the first quarter 2012. The remaining value of the unvested restricted share grants is amortized over the individual vesting periods. For the three and six months ended June 30, 2012, the Corporation recorded share-based payments expense related to past and current share grants of $97 thousand and $184 thousand, respectively. Expenses for the same periods in 2011 were $15 thousand and $30 thousand, respectively.

Restricted Cash Bonus Program

On June 8, 2012 the Corporation awarded a total of 355,000 bonus units to employees, officers, directors and certain full time consultants under a Restricted Cash Bonus Program. This program consists of two cash settled incentives. The first incentive is the Full Value Based Cash Bonus ("**FVCB**") totaling 150,000 units with the cash settlement value of each unit equal to the current market price of a common share of the Corporation on specific vesting dates. The second incentive is the Appreciation Based Cash Bonus ("**ACB**") totaling 205,000 units which are settled in cash when an awardee makes a call on vested units with the value of the award calculated as the difference between the current market price of a common share of the Corporation at call date and the original CAD$4.80 grant price. The program does not grant any entitlement to common shares or other equity interest in the Corporation.

The FVCB incentive awards vest 1/3 each in January 1, 2013, 2014 and 2015 with cash settlement on vesting dates. The fair value of FVCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the years 2014 and 2015. The estimated FVCB liability at June 30, 2012 was $0.7 million which is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is fair valued at each reporting date with adjustments recorded through profit and loss.

The ACB incentive awards were granted at CAD$4.80, the market closing price of Corporation shares on June 4, 2012, and vested 25% at grant date of award and 25% on each of January 1, 2013, 2014 and 2015. The ACB awards have a contractual life of five years and were fair valued at $0.3 million using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.02%, two year expected life, expected volatility of 56% and average forfeiture rate of 13%. The estimated ACB liability is amortized over the 42 months vesting period. At each reporting date the liability is fair valued with the same Black-Scholes pricing model with adjustments recorded through profit and loss.

For the three and six months ended June 30, 2012, the Corporation recorded restricted cash bonus expense of $0.1 million (2011 - $ nil).

Shareholder Settled Transactions

Under IFRS, when a shareholder transfers its own shares in a manner that benefits the Corporation, such Corporation must recognize the value of that transfer over the period in which benefits are received. For the three and six months ended June 30, 2012, the Corporation recorded $0.15 million and $0.25 million (2011 - $ nil) expense for such transactions.

In December 2011 the Corporation recorded a $1.0 million provision expense associated with a claim shareholders of the Corporation anticipated settling through the transfer of their own shares to the claimant. In addition, for the six months ended June 30, 2012, the Corporation recorded a $0.125 million provision expense recovery to reflect the final settlement amount associated with this shareholder transaction. No shares of the Corporation were issued as part of this settlement.

Dividends, interest and other Income

For the three and six months ended June 30, 2012, the Corporation recorded $15 thousand and $32 thousand respectively, as income from short term investments. Income for the same periods in 2011, were $76 thousand and $128 thousand, respectively. This income relates to interest received or accrued from investments in corporate bonds and dividends from income-producing mutual funds. During the six months ended June 30, 2012, some corporate bonds have been called early and others at maturity resulting in gradual decreases of short term investments balance.

For the three and six months ended June 30, 2012, the Corporation recorded $0.3 million and $0.5 million, respectively, as interest income from notes receivable from related party compared to $0.1 million for the same periods in 2011. This income relates to interest earned on funds loaned to Bahar Energy under the Common Terms Agreement.

Interest expense

For the three and six months ended June 30, 2012, the Corporation recorded $0.3 million and $0.6 million, respectively, as interest expense from notes payable to related party compared to $0.1 million for the same periods in 2011. This interest expense relates to the Corporation 33.33% share of related party notes payable to the shareholders of Bahar Energy for their funding under the Common Terms Agreement. For the three and six months ended June 30, 2012, the Corporation recorded $0.3 million as interest expense from convertible debentures (June 30, 2011 – $ nil). This expense includes the interest coupon, accretion and amortization of issue costs.

Change in fair value of derivative liability

For the three and six months ended June 30, 2012, the Corporation recorded $0.5 million loss resulting from the June 30, 2012 fair value measurement of the derivative liability associated with the debentures convertible option (June 30, 2011 – $ nil).

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. The option to exercise these warrants expired on February 24, 2012 and all warrants were exercised.

Under IFRS, the 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.

At December 31, 2011 the derivative financial liability balance was $1.0 million. Through the exercise of all outstanding warrants during January and February 2012, before the expiration date on February 24, 2012, the fair value of the warrants was estimated in $0.6 million which difference with respect to the balance of the derivative liability at December 31, 2011 resulted in a positive adjustment to income of $0.3 million.

Income taxes

Currently, the Corporation's primary revenue producing assets are held through its 33.3% ownership in Bahar Energy. The project, being in the early rehabilitation and development stage, requires significant development funding and re-investment of operating cash flows for the foreseeable future. Earnings from the Bahar project are not taxable to the Corporation in the U.S. until Bahar Energy declares dividends from the surplus funds generated from the ERDPSA. Before Bahar Energy can declare dividends, shareholders' loans must be repaid with accumulated interest payable. The loan principal repaid to the Corporation is non-taxable.

With much of the early funds returned from Bahar Energy being non-taxable loan repayments, the Corporation's potential taxable dividends horizon is beyond that normally allowed under IFRS for recognition of deferred tax assets. As a result, the Corporation has elected to postpone recognition of deferred tax benefits and the associated deferred tax asset until such time recovery and offset against future taxable income can be assured. In December 2011, the Corporation derecognized its accumulated deferred tax asset by reversing amounts accumulated in 2010 and for the nine months ended September 30, 2011.

Per share information

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Net loss per share, basic and diluted	($0.31)	($0.05)	($0.51)	($0.10)

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 15,540,354 common shares outstanding and no preferred shares outstanding.

RISK FACTORS

The following abbreviated "Risk Factors" reflect those risks and uncertainties specific to the Bahar project and are summarized from the more detailed Risk Factor assessment disclosed in the Corporation's Annual Information Form for the year ended December 31, 2011 beginning on page 25 filed April 30, 2012 and available on SEDAR.

Rehabilitation, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of a project or the Corporation depends on its ability to find, acquire, license, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to exploit and develop any properties it may have from time to time, but also on its ability to select, acquire and rehabilitate suitable producing properties or prospects. No assurance can be given that the Corporation will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation. It is project specific and at times it is difficult to project the costs of implementing or the success of exploration, rehabilitation or development drilling programs due to the inherent uncertainties of drilling in unknown formations, the uncertainty of the condition of existing well bores, the costs associated with encountering various drilling conditions such as over pressurized geological zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and natural gas exploration or development may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include but are not limited to delays in obtaining governmental approvals or consents, shut ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal oilfield operating conditions cannot be eliminated and can be expected to adversely affect revenue, cash flow and financial condition levels to varying degrees.

Oil and natural gas exploration, development, rehabilitation and production operations are subject to all the risks and hazards typically associated with such operations, including but not limited to hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks generally insurable. The Corporation will maintain liability insurance in an amount that it considers consistent with industry practice, however, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development, rehabilitation and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its financial condition.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the development, rehabilitation, production and acquisition of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing or cash generated by operations will be sufficient or available to meet these requirements or for other corporate purposes 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. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation’s financial condition and its results of operations.

Additional Financing Requirements and Dilution of Investment

It may take many years and substantial capital expenditures to pursue the exploration and development of the Corporation’s existing opportunities, successfully or otherwise. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, rehabilitation and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation’s future revenues from its potential reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation’s ability to expend the necessary capital to replace its potential reserves or to maintain its production. If the Corporation’s cash flow is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms. The availability of equity or debt financing is affected by many factors, including world and regional economic conditions; the state of international relations; the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation; fluctuations in the world and regional price of oil and gas and in interest rates; the outlook for the oil and gas industry in general and in areas in which the Corporation has or intends to have operations; and competition for investment funds among alternative investment projects. The terms of any such equity financing may be dilutive to holders of Common

Shares. Potential investors and lenders will be influenced by their evaluations of the Corporation and its projects, including their technical difficulty, and comparison with available alternative investment opportunities. If adequate funds are not available, the Corporation may be required to scale back or reduce its interest in certain projects. If additional financing is raised by the issuance of shares, control of the Corporation may change and existing shareholders may suffer dilution. In addition, the Corporation may make future property or corporate acquisitions or enter into other transactions involving the issuance of securities of the Corporation which may also be dilutive.

Commodity Prices

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions in the United States and Canada, the actions of OPEC, governmental regulation, and political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of any reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Volatile oil and natural gas prices make it difficult to estimate the long-term value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Corporation may in part be determined by the Corporation's oil and gas reserves that form its borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of any potential bank debt of the Corporation be repaid. The Corporation has reduced this risk by not carrying any bank debt at this time.

Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market any oil and natural gas it discovers or acquires may depend upon its ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of any reserves it establishes to pipelines and processing facilities and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of any reserves which the Corporation may establish. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in any net production revenue of the Corporation causing a reduction in its oil and gas acquisition, development, rehabilitation and exploration activities.

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to the markets, value of refined products, supply/demand balance, and other contractual terms. In respect of the Bahar Project, sales of natural gas will be governed by the Bahar Gas Sales Agreement for the next five years. The price of natural gas sold from the Bahar PSA is fixed until October 2015 at $3.96 per mcf. The price of natural gas is then determined by negotiation between buyers and sellers.

Recent gas negotiations continue to be influenced by increasing gas exports from Azerbaijan to Russia, Turkey and throughout the region. Also, negotiations are progressing to export Azerbaijan gas to Europe (Vienna) via the proposed TANAP and Nabucco-West pipelines. These new export routes could dramatically increase the gas price realizations in the region in the next five years.

Project Risks

The Corporation will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel services;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labor;
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies; and
- industry partner conflicts of interest.

As a result of the foregoing factors, the Corporation may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Availability of and Access to Drilling and Related Equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling, recompletion and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration, rehabilitation and development activities and affect the Corporation's results of operations. If the demand for, and wage rates of, qualified rig crews and other personnel rise, then the oil and gas industry and the Corporation may experience shortages of qualified personnel to operate drilling rigs and to conduct other work. This may delay the Corporation's exploration, rehabilitation, development and production operations and may adversely affect the Corporation and its results of operations. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be limited in its ability to direct or control the operations.

Risk of Foreign Operations

The Corporation's principal oil and natural gas properties are currently located in Azerbaijan. As such, the Corporation is subject to political, economic, and other uncertainties, including, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty and tax increases and other risks arising out of foreign governmental sovereignty over areas in which the Corporation's operations are conducted, as well as the risks of loss due to civil strife, acts of war, acts of terrorism, guerrilla activities and insurrections. In the event of a dispute arising in connection with the Corporation's operations outside of the United States, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of the United States or enforcing judgments from the United States in other jurisdictions. The Corporation may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Corporation's exploration, development and production activities outside of the United States could be substantially impacted by factors beyond the Corporation's control, any of which could have a material impact on the Corporation.

The Corporation's operations may be adversely affected by changes in governmental policies and legislation or social instability and other factors which are not within control of the Corporation including, among other things, a change in crude oil or natural gas pricing policy, the actions of national labor unions, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, changes in taxation policies, economic sanctions and the imposition of specific drilling obligations and the development and abandonment of oil or natural gas fields.

The Corporation's operations and expenditures are to some extent paid in foreign currencies. As a result, the Corporation is exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material increase or drop in the value of any such foreign currency could result in a material adverse effect on the Corporation's cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Azerbaijan to foreign entities. However, there can be no assurance that restrictions on repatriation of capital or distributions of earnings from Azerbaijan will not be imposed in the future.

The Corporation is not currently using exchange rate derivatives to manage exchange rate risks. In addition, the Corporation's results will be reported in United States Dollars and any foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings.

Risk Factors Relating to Operations in Azerbaijan

Beyond the risks inherent in the oil and natural gas industry, the Corporation is subject to additional risks resulting from doing business in Azerbaijan. While the Corporation will attempt to reduce many of these risks through agreements with the Government of Azerbaijan and others, no assurance can be given that such risks have been mitigated. The risks include matters arising from the evolving laws and policies of Azerbaijan, the imposition of special taxes or similar charges, oil export or pipeline restrictions, foreign exchange fluctuations and currency controls, the unenforceability of contractual rights or the taking of property without fair compensation, restrictions on the use of expatriates in operations and other matters.

Regulatory Regime

The Corporation bears the risk that a change of government could occur and a new government may void the contracts, laws and regulations that the Corporation is relying upon for the exploration, rehabilitation, development and production of oil and natural gas and operations relating thereto. Regulations with respect to exploration and production operations may be revised at any time. There can be no assurance that any such regulatory enactments will not have a materially adverse effect on the operations or the revenues generated in Azerbaijan.

Legal Risks

Laws relating to corporate law, tax law, customs law and currency and banking legislation are subject to modifications or revision by Azerbaijan. Non compliance may have consequences which are out of proportion to the severity of the non compliance. Contracts may be susceptible to conflicting interpretations, revision or cancellation and legal redress may be uncertain, delayed or unavailable. It is possible that Azerbaijan may make changes to laws, decrees, rules or regulations which may restrict the rights or benefits accruing to the Corporation or which may increase its financial obligations.

Regional Risk

Azerbaijan is located in a region that has, at times, been politically unstable. Regional wars or other forms of instability in the region that may or may not directly involve Azerbaijan could have an adverse impact on Azerbaijan's ability to engage in international trade or the exploration, rehabilitation, development and production of oil and gas assets in Azerbaijan by the Corporation.

Conflicting Interests with Partners

Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have objectives and interests that may not coincide with the Corporation's interests and may conflict with the Corporation's interests. Unless the parties are able to resolve these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated, which would likely have a material adverse effect on the Corporation's financial condition and results of operations.

In certain circumstances, the consent of joint venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from the Corporation's, even if they generally share the Corporation's objectives. Demands by or expectations of governments, joint venturers, customers, and others may affect the Corporation's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect the Corporation's participation in such projects or its ability to obtain or maintain necessary licenses and other approvals. If that were to occur, it would likely have an adverse effect on the Corporation's financial condition and results of operations

Expiration of Contract Terms

The Corporation's property interests are generally expected to be held indirectly in the form of PSAs. If the Corporation or the holder of the interests in the PSA fails to meet the specific requirement(s) of a PSA, the interest or any part thereof may terminate or expire. There can be no assurance that any of the obligations required to maintain each interest in a PSA will be met. The termination or expiration of the Corporation's particular interest in a PSA, including the ERDPSA, will likely have a material adverse effect on the Corporation's financial condition and results of operations.

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 Program", 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. If Bahar Energy fails to meet the 150% production target within the three year timeframe, SOCAR shall have the right to terminate the ERDPSA in relation to the Contract Rehabilitation Area. Approval of the "Rehabilitation and Production Program" was received from SOCAR on June 22, 2011 establishing the start date for the three year period in which the production target must be met.

Internal Controls

Effective internal controls over financial reporting are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. Although the Corporation will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could impact the Corporation's results of operations or cause it to fail to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements and reduce the trading price of the Common Shares.

At the operational level, the Corporation relies upon certain employees of BEOC, an entity in which the Corporation has an indirect interest as a shareholder, and regular physical visits to Azerbaijan by management of the Corporation for the accumulation and reporting of financial data in respect of the Corporation's interests in Azerbaijan. A major disruption in the flow of information from Bahar Energy and BEOC could impact the accuracy of financial reporting and management information.

Environmental Risks and Regulations

All phases of the oil and gas industry present environmental risks and are subject to environmental regulation pursuant to a variety of international conventions and local laws and regulations. Such legislation provides for, among other things, restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of fines and penalties any of which may materially adversely affect the Corporation's financial condition and results of operations.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. No assurance can be given that environmental legislation will not result in a curtailment of production or a material increase in the costs of exploration, development or production activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Insurance

The Corporation's involvement in the exploration for and development of oil and gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. The insurance the Corporation maintains may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations and prospects.

Delays in Business Operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Corporation, payments to the Corporation may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connections of wells to a gathering system, adjustment for prior periods, or recovery of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the Corporation in a given period and expose the Corporation to additional third party credit risks.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with joint venture partners, with marketers of petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners of the Corporation may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Governmental Regulation

The petroleum industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for natural gas and oil, increase costs and may have a material adverse impact on the Corporation. Export sales are subject to the authorization of provincial and federal government agencies and the corresponding governmental policies of foreign countries. Development of reserves and rates of return are also susceptible to changes in governmental fiscal policy. Generally, government and other regulatory licenses and permits are required to conduct exploration, rehabilitation, development and production activities. The issuance of such licenses and permits is subject to the discretion of the applicable governments or governmental agencies and offices, and there can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out its exploration, rehabilitation, development and production activities at its properties.

The Corporation must comply with known standards, existing laws and regulations. New laws and regulations, amendments to existing laws and regulations or more stringent enforcement of existing laws and regulations could have a material adverse impact on the Corporation and its results of operations, financial condition and prospects.

Development of the Corporation's properties requires the approval by applicable regulatory authorities of the plans of the Corporation with respect to the drilling and development of such properties. A failure to obtain such approval on a timely basis or the imposition of material conditions by such authority in connection with the approval may materially affect the prospects of the Corporation.

Labor

The Corporation may be dependent on local labor to carry out site work relating to its international operations. The Corporation may directly employ local workers and may be subject to local labor laws. There can be no assurance that labor related disputes, developments or actions, including strikes, may not occur in the future. Such occurrences may have a material adverse impact on the business, operations, prospects and financial condition of the Corporation.

Future Financing

Greenfields may require future financing through the issuance of equity or debt to fund its future exploration, development and operations. There can be no assurance that additional financing will be available to Greenfields when needed or on terms acceptable to Greenfields. In addition, capital markets have been volatile in recent months, and continued volatility could limit Greenfields' ability to obtain new financing, even if Greenfields has positive business results. Greenfields' inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit Greenfields' growth or may have a material adverse effect upon Greenfields. Greenfields cannot predict the size of future issuances of equity or the issuance of debt or the effect, if any, that future issuances and sales of Greenfields' securities will have on the market price of the Common Shares.

Market Conditions

As a result of the weakened global economic situation and the recent volatility in oil, natural gas and other commodity prices, Greenfields may face reduced cash flow and restricted access to capital until these conditions stabilize. A prolonged period of adverse market conditions may affect Greenfields' financial results and impede Greenfields' ability to finance planned capital expenditures. In addition, a prolonged period of adverse market conditions may impede Greenfields' ability to refinance its credit facilities or arrange alternative financing for operations, capital expenditures and future acquisition opportunities. In each case, Greenfields' ability to maintain and grow its reserves and fully exploit its properties for the benefit of the shareholders could be adversely affected. As well, given the recent volatility in commodity prices and in Canadian and global equity markets, the trading prices of the Common Shares in the future may be subject to considerable volatility. Future trading prices of Greenfields' Common Shares may be significantly below current levels.

Negative Operating Cash Flow

The Corporation has had negative cash flow since inception and is expected to have negative operating cash flow through 2013. The Corporation's failure to achieve profitability and positive operating cash flows could have a material adverse effect on the Corporation's business, financial condition, operating results, ability to access additional equity or bank debt.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk

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

The Corporation prepares annual and interim period capital expenditures budgets, which are monitored and updated as considered necessary to provide current cash flow estimates. To facilitate the capital expenditure program, the Corporation may raise debt and capital through the issuance of debt or equity securities. Additional financing may be required to complete planned capital programs.

The Corporation's financial liabilities at June 30, 2012 and December 31, 2011 arose from the recognition of its proportionate share of Bahar Energy liabilities for the Azerbaijan project, corporate obligations and convertible debt.

Our cash flows, both in the short-term and long-term, are impacted by highly volatile oil and natural gas prices. Significant deterioration in commodity prices negatively impacts revenues, earnings and cash flows, capital spending, and potentially our liquidity. Sales volumes are substantially impacted by the onset of new production related to the start of drilling and recompletion operations in the fields. Further, the start of these operations is contingent on the fabrication and delivery of new platforms and rigs, the weather in the Caspian Sea and the availability of suitable offshore installation equipment. Delays in this equipment will reduce our earnings and cash flows.

The costs also impact project cash flows; however, these historically have not been as volatile or as impactful, as commodity prices and production in the short-term.

Our long-term cash flows are highly dependent on our success in efficiently developing current reserves and economically finding, developing and monetizing additional recoverable reserves. Cash investments are required continuously to fund exploitation and development projects, which are necessary to offset the inherent declines in production of proven reserves. We may not be able to find, develop or acquire additional reserves to replace our current and future production at acceptable costs, which could materially adversely affect our future liquidity.

Future liquidity will depend on the timing of starting the drilling and recompletion programs. As favorable product pricing and production results are realized, we will evaluate the available market for additional drilling rigs to accelerate the drilling program as contemplated in the development program and summarized in our NI Form 51-101 disclosure filed April 30, 2012 and available on SEDAR. If additional capital resources are needed in 2013 in excess of the operating cash flows from the Bahar project, we will obtain debt financings to fund the project until the project becomes cash flow positive as forecast in 2014.

In the event that debt financing is not available or unattractive, the Corporation will consider issuing additional equity or divestment of a part of its investments or projects. Although management is confident that the necessary financing or alternatives to financing will be available, there is no certainty that such funding options will be obtained on terms acceptable to management which may cast significant doubt about the Corporation's ability to continue as a going concern.

Capital structure *(US$000's)*	June 30, 2012	December 31, 2011
Working capital	33,961	29,674
Shareholders' equity	33,541	36,521
Ratios of working capital to shareholders' equity	101%	81%

Currently, the Corporation does not have financing or lines of credit arrangements in place to provide project funding. Capital resources of the Corporation consist of existing working capital. The Corporation expects to continue financing its contractual commitments under the ERDPSA with cash on hand, short term investments non-cash working capital, cash from operations and debt. Additional cash flow needs resulting from strategic changes to capital expenditure programs would be raised by issuing additional debt or equity securities or a combination of both.

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 condensed consolidated statements of financial position.

Related party transactions

A detailed discussion of related party transactions is included in Note 6 to the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012.

Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of June 30, 2012:

(US$000's)	2012	2013	Thereafter
Operating leases (1)	114	152	-
Annual acreage fees	72	72	-
Debentures – Coupon payments (2)	1,079	2,136	7,473
	1,227	2,360	7,473

(1) The Corporation has extended its lease of office space for its corporate headquarters in the United States through December 2013.
(2) The interest coupon payments are denominated in Canadian Dollars. The amounts represented in schedule above assume a fixed exchange rate of one USA/CAD.

The commitments of the Corporation include a $28 million loan commitment to Bahar Energy for the funding of the deficit cash flows associated with the 2012 Bahar Annual Work Program and Budget ("WP&B"), which is subject to change.

The Corporation's commitments to fund the Bahar project are based on the approved annual WP&B prepared by BEOC. Greenfields' management, through their participation at the project Steering Committee, Management Committee and Bahar Energy board of directors, provides significant input and technical guidance to the proposed annual work plan. Proposed budgets are reviewed and approved by the Management Committee (comprised of representatives from Bahar Energy and SOCAR), Bahar Energy board of directors and Greenfields board of directors. Budget approval by Bahar Energy must be unanimous. Greenfields' Chief Operating Officer currently serves as the Bahar Energy representative on the Management Committee for BEOC.

The annual WP&B is then submitted to SOCAR (the National Oil Company of Azerbaijan) in accordance with ERDPSA contractual requirements for review and approval. It is the responsibility of BEOC to carry out the petroleum operations for the Contractor parties, BEL and SOCAR Oil Affiliate (SOA), in accordance with the SOCAR approved annual WP&B. BEL shareholder commitments to fund petroleum operations are made in the form of loan agreements, which can be called by the BEL President based on valid cash calls submitted by BEOC. The Corporation has signed a 2012 loan agreement with BEL to fund its 33.33% share of deficit cash flows of the Bahar project resulting from capital expenditures and net operating cash flows in the 2012 approved WP&B.

The WP&B is monitored during the year and updated based on; the progress of implementing the work plan by BEOC, actual costs incurred and actual production and revenues realized from operating activities. At mid-year (or earlier if required) a revised budget is prepared by BEOC for BEL and its board of directors for review and approval and to submit to the Steering Committee for approval.

Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 20 to the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2012.

SUBSEQUENT EVENTS

- **Shares Grant**

  On August 9, 2012 the Corporation completed the grant of 15,000 common shares to Mr. Norman G. Benson, Senior Vice President (Operations), in accordance with his employment agreement. The shares were valued at the closing price on the TSXV at June 4, 2012, that being CAD$4.80.

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