



Management's Discussion and Analysis

For the quarter ended March 31, 2014

(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 and notes thereto for the three months ended March 31, 2014 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2013. 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 May 28, 2014.

This MD&A and the unaudited condensed consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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.

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

First quarter 2014 financial results and operating highlights

- The Corporation's 33.33% share of Bahar Energy entitlement sales volumes averaged 435 bbl/d and 8,987 mcf/d or 1,933 boe/d in the first quarter 2014, an 11% improvement over the prior quarter, and a 91% improvement over the first quarter 2013 on a barrel of oil equivalent basis.
- Through its interest in Bahar Energy, the Corporation realized average oil and gas prices of \$102.36 per barrel and \$3.96 per mcf in the quarter.
- The Corporation's 33.33% share of Bahar Energy provided net income of \$3.2 million for the first quarter 2014 compared to a net loss of \$2.1 million in the first quarter 2013. This improvement reflected revenues of \$7.6 million for the first quarter 2014, a 29% improvement over the first quarter 2013, and a 58% reduction in operating costs versus first quarter 2013.
- The Corporation recorded revenues of \$0.4 million, had net income of \$1.1 million and EPS of \$0.06 (basic and diluted).
- On January 31, 2014, BEOC informed SOCAR that they had maintained an average rate of 7,081 boe/d for the previous 92 consecutive days, and as such, meeting the TPR1⁽¹⁾ requirement in accordance with the ERDPSA. This production milestone has been acknowledged by SOCAR with official notice still pending. Upon receipt of such official notice, Bahar Energy will be required to pay a \$2.0 million bonus obligation to SOCAR (\$667 thousand net to the Corporation). Meeting the TPR1 requirement secures for the Contractor Parties in the ERDPSA the rights under the ERDPSA to the full twenty-five (25) year development and production period.
- On April 17, 2014, BEOC informed SOCAR that on March 31, 2014, BEOC met the TPR2⁽²⁾ requirement in accordance with the ERDPSA. BEOC is awaiting acceptance from SOCAR that the TPR2 obligation has been met. Once accepted by SOCAR, SOA, with a 20% interest, will be obligated to pay its share of costs going forward in the next calendar quarter. SOA will also begin to repay the carry that has been in place since the beginning of the project from SOA's share of petroleum revenues attributable to cost recovery.

⁽¹⁾ TPR1 refers to Target Production Rate 1 under the ERDPSA whereby BEOC must maintain a daily production rate for 90 consecutive days equal to 1.5 times the average 2008 production rate, that rate being 6,944 boe/d.

⁽²⁾ TPR2 refers to Target Production Rate 2 under the ERDPSA whereby BEOC must maintain a daily production rate for 30 consecutive days equal to 2 times the average 2008 production rate, that rate being 9,258 boe/d.

Operating highlights and plans

- Work continued in the first quarter 2014 on the recording, processing and interpretation of up to 200 square kilometers of 3D seismic over the Gum Deniz Oil Field, which was contracted in 2013. At the end of the quarter, a total of 14 square kilometers of data had been acquired. Winter winds and seas

impeded the seismic acquisition. The acquisition rate is expected to improve in the spring and summer months of 2014. Once the new data is acquired, processed, and interpreted, the revised Gum Deniz reservoir model will be used to improve well site selection for the drilling program.

- The interpretation of the 3D seismic survey on the Bahar-2 exploration block recorded in 2012 continued during the first quarter 2014. Calibration of the wells to the seismic commenced using Vertical Seismic Profile (VSP) acquired during the quarter. Additionally, fluid substitution models are being calculated to determine the amplitude versus offset (AVO) response of the seismic. This calibration is expected to aid in the evaluation of multiple seismic amplitude anomalies seen on the block.
- Three workovers were conducted in Bahar Gas Field resulting in production growth of approximately 14 mmcf/d. A total of 10 workovers were conducted in the Gum Deniz Oil Field yielding an estimated 250 bbl/d. The success of these workovers played a key role in reaching the TPR2 objective on March 31, 2014.
- The GD-774 well reached target depth of 2,566 meters on January 26, 2014, and was completed in Horizon VIII at a production rate of approximately 25 bbl/d. Further testing is planned in Horizons VIII, VII, VI and V.
- Drilling in Gum Deniz Oil Field has been delayed pending drilling rig modifications, a completion program evaluation, and a review of the subsurface interpretation which will focus on the results of wells drilled and recompleted to date, and on a subsequent prioritization of drilling locations. During the drilling delay, the focus will shift to recompletions on the Bahar Gas Field which have been successful to date at adding significant gas production, and on continued oil recompletions in the Gum Deniz Oil Field, along with production optimization and Electrical Submersible Pump (ESP) installations.
- Construction activity in the first quarter 2014 continued to focus on platform upgrades, primarily in the Bahar Gas Field, to support workovers, and on facilities improvement in the tank farm and process area.

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SELECTED QUARTERLY INFORMATION

Greenfields Petroleum Corporation

	Three months ended March 31,	
	2014	2013
<i>(US\$000's, except as noted)</i>		
Financial		
Revenues	427	687
Net income (loss)	1,101	(3,803)
Net income (loss) per share, basic and diluted	\$0.06	(\$0.24)
Capital Items		
Cash and cash equivalents	2,763	2,837
Total Assets	60,129	36,458
Working capital	1,773	3,316
Long term loan, convertible debt and shareholders' equity	57,653	34,009

Bahar Energy Limited (Joint Venture) 33.33%

	Total Joint Venture		Corporation's share	
	Three months ended March 31,			
	2014	2013	2014	2013
<i>(US\$000's, except as noted)</i>				
Financial				
Revenues	22,898	17,750	7,632	5,916
Net income (loss)	9,657	(6,170)	3,218	(2,057)
Operating				
Average Entitlement Sales Volumes ⁽¹⁾				
Oil and condensate (bbl/d)	1,304	1,330	435	443
Natural gas (mcf/d)	26,964	10,216	8,987	3,405
Barrel oil equivalent (boe/d)	5,798	3,032	1,933	1,011
Average Oil Price				
Oil price (\$/bbl)	\$102.36	\$105.80	\$102.36	\$105.80
Net realization price (\$/bbl)	\$100.46	\$103.73	\$100.46	\$103.73
Brent oil price (\$/bbl)	\$108.14	\$112.44	\$108.14	\$112.44
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items				
Total Assets	198,482	113,561	66,154	37,850
Total Liabilities	46,658	32,502	15,551	10,833
Net Assets	151,824	81,059	50,603	27,017

1) Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of compensatory petroleum and the government's share of profit petroleum. Effective October 1, 2013 the compensatory petroleum increased from 5% to 10% where it will remain until specific cumulative oil and gas production milestones are attained.

SUMMARY OF QUARTERLY RESULTS

<i>(US\$000's, except as noted)</i>	Greenfields Petroleum Corporation							
	2014	2013				2012 ⁽²⁾		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenues								
Management service fees	427	486	575	684	687	830	733	512
	427	486	575	684	687	830	733	512
Net income (loss)	1,101	66	(58)	517	(3,803)	(5,934)	(482)	(5,155)
Per share, basic and diluted	\$0.06	\$0.00	\$0.00	\$0.03	(\$0.24)	(\$0.38)	(\$0.03)	(\$0.34)
Capital Items								
Cash and cash equivalents	2,763	3,068	3,986	6,721	2,837	12,404	19,720	24,288
Total Assets	60,129	49,337	44,477	41,973	36,458	40,560	49,831	48,782
Working capital	1,773	1,734	3,525	7,716	3,316	16,622	23,446	27,467
Long term loan, convertible debt and shareholders' equity	57,653	46,924	42,244	39,704	34,009	38,327	46,974	46,338

<i>(US\$000's, except as noted)</i>	Bahar Energy Limited (Joint Venture) 33.33%							
	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenues								
Petroleum and natural gas	7,207	7,689	7,827	6,605	5,507	6,132	5,815	5,396
Transportation & storage fees	425	407	396	393	409	457	408	418
	7,632	8,096	8,223	6,998	5,916	6,589	6,223	5,814
Net income (loss)	3,218	1,818	1,578	1,090	(2,057)	(5,590)	1,839	(1,250)
Operating								
Average Entitlement Sales Volumes ⁽¹⁾								
Oil and condensate (bbl/d)	435	522	573	556	443	487	456	442
Natural gas (mcf/d)	8,987	7,352	6,334	4,645	3,405	3,928	4,215	3,880
Barrel oil equivalent (boe/d)	1,933	1,747	1,628	1,330	1,011	1,141	1,159	1,089
Prices								
Average oil price (\$/bbl)	\$102.36	\$104.34	\$106.39	\$97.52	\$105.80	\$105.02	\$103.51	\$99.40
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items								
Total Assets	66,154	58,495	55,115	46,396	37,850	33,346	31,316	25,456
Total Liabilities	15,551	15,593	16,817	13,381	10,833	11,637	8,498	6,385
Net Assets	50,603	42,902	38,298	33,015	27,017	21,709	22,818	19,071

⁽¹⁾ Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of compensatory petroleum and the government's share of profit petroleum. Effective October 1, 2013 the compensatory petroleum increased from 5% to 10% where it will remain until specific cumulative oil and gas production milestones are attained.

⁽²⁾ These figures were restated to comply with the adoption of IFRS 11 in 2013 impacting the accounting for the joint venture.

RESULTS OF OPERATIONS FOR BAHAR ENERGY (JOINT VENTURE)

Revenues <i>(US\$ 000's)</i>	Total Joint Venture		Corporation's share	
	Three months ended March 31,			
	2014	2013	2014	2013
Petroleum	12,013	12,803	4,004	4,267
Natural gas	9,610	3,720	3,203	1,240
Total petroleum and natural gas	21,623	16,523	7,207	5,507
Transportation and storage fees	1,275	1,227	425	409
Total revenues	22,898	17,750	7,632	5,916

The Corporation's share of Bahar Energy petroleum revenues for the three months ended March 31, 2014 and 2013 were \$4.0 million and \$4.3 million, respectively, and natural gas revenues were \$3.2 million and \$1.2 million, respectively, for the same periods. Petroleum and natural gas revenues are recorded net by Bahar Energy after deducting for the government's share of profit petroleum and compensatory petroleum production.

The average price received for crude oil during the first quarter of 2014 was \$102.36 per barrel compared to an average price of \$105.80 for the same period in 2013. The price for natural gas remained contractually constant at \$3.96 per thousand cubic feet.

The Corporation's share of Bahar Energy crude oil daily entitlement production for the three months ended March 31, 2014 was 435 bbl/d, a 2% decline when compared to the production of 443 bbl/d in first quarter 2013. Natural gas daily entitlement production for the three months ended March 31, 2014 was 8,987 mcf/d, a 164% increase when compared to the production of 3,405 mcf/d in first quarter 2013. Oil equivalent daily production during the first quarter 2014 the Corporation's share of Bahar Energy production was 1,933 boe/d, which represented a 91% increase with respect to the production of 1,011 boe/d for the same period in 2013.

Net realization price for crude oil and natural gas ⁽¹⁾

	Three months ended March 31	
	2014	2013
\$/bbl		
Average crude oil sales price	102.36	105.80
Transportation fees	(1.05)	(0.98)
Marketing fees	(0.85)	(1.08)
Other costs ⁽²⁾	(0.01)	(0.01)
Crude oil net realization price	100.45	103.73
\$/mcf		
Natural gas price	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 months ended March 31, 2014 and 2013, Bahar Energy's transportation and storage revenues were \$1.3 million and \$1.2 million, respectively, (\$0.4 million and \$0.4 million, respectively, for the Corporation's 33.33% share). The transportation and storage revenues are based on a fee arrangement to supply excess capacity available in the Bahar facilities to another local producer.

Operating and administrative expenses

For the three months ended March 31, 2014 and 2013, Bahar Energy's operating and administrative expenses were \$10.2 million and \$23.4 million, respectively, (\$3.3 million and \$7.8 million, respectively, for the Corporation's 33.33% share). The major areas impacting the reduced operating and administrative expenses for the quarter ended March 31, 2014 are permanent staff reductions implemented in 2013 and early 2014, lower insurance costs, replacing fixed monthly service contracts with callout service agreements, reductions in operating materials and supplies purchases and lower repair and maintenance expenses.

RESULTS OF OPERATIONS FOR GREENFIELDS PETROLEUM CORPORATION

Revenues

<i>(US\$ 000's)</i>	Three months ended	
	March 31	
	2014	2013
Management service fees	427	687

Management and service fees

For the three months ended March 31, 2014 and 2013, the Corporation recorded service fee revenue of \$0.4 million and \$0.7 million, respectively. The fees are primarily related to administrative, commercial, legal and technical support assistance provided by the Corporation to BEOC under a Master Service Agreement ("**MSA**") and personnel Secondment Agreements between the Corporation and BEOC for Greenfields employees working directly for BEOC. The reduction in management service fees charged BEOC in 2014 versus 2013 is the result of the elimination of most third party services related to project management and supervisor of the 3D seismic recording conducted during 2013 over the Bahar 2 exploration area.

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Administrative expenses

(US\$ 000's)	Three months ended	
	March 31	
	2014	2013
Cash expenses		
Employee wages and benefits	915	1,194
Professional service costs	251	522
Office, travel and other	274	548
Total cash expenses	1,440	2,264
Stock-based payment expense	412	157
Total gross administrative	1,852	2,421
Services fees billed to third party and affiliates	(427)	(664)
Administrative expenses net of services fees	1,425	1,757

Administrative expenses, excluding non-cash stock-based compensation, for the three months ended March, 2014 and 2013, were \$1.4 million and \$2.3 million, respectively. The reduction in administrative expenses is attributable to staff reductions made at the end of June 2013, reduction of third party professional services, lower travel costs due to the staff reductions and fewer individual trips by remaining personnel. The reductions in professional services and travel costs are mostly offset by reductions in the management service fees billed to and reimbursed to the Corporation by BEOC. For the three month period ended March 31, 2014, net administrative expenses were \$1.4 million (March 31, 2013 - \$1.8 million). The reduction in net administrative expenses in 2014 versus 2013 is primarily due to the staff reductions made in June 2013.

Share-based payments

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

Share Options

The Corporation's Share Option Plan governs the granting of options to employees, officers, directors and certain full time consultants. All options issued by the Corporation permit the holder to purchase a specific number of common shares of the Corporation at a stated exercise price. The Corporation has not issued stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of stock.

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

For the three months ended March 31, 2014 and 2013, the Corporation recorded share options expense of \$0.1 million and \$0.1 million, respectively.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD\$)	Number Exercisable
Aug. 31, 2010	595,000	Aug. 31, 2020	6.4	6.50	595,000
Nov. 16, 2010	100,000	Nov. 16, 2020	6.6	8.50	100,000
Mar. 14, 2011	30,000	Mar. 14, 2021	7.0	9.50	30,000
May 19, 2011	100,000	May 19, 2021	7.1	9.00	75,000
Feb. 1, 2012	80,000	Feb. 1, 2017	2.8	6.00	60,000
Jun. 25, 2012	150,000	Jun. 25, 2017	3.2	13.00avg	150,000
Oct. 11, 2013	630,000	Oct. 11, 2018	4.5	3.20	210,000
Oct. 25, 2013	40,000	Oct. 25, 2018	4.6	3.00	10,000
Nov. 7, 2013	50,000	Nov. 7, 2018	4.6	2.90	12,500
	1,775,000				1,242,500

As at March 31, 2014 the Corporation has a total of 1,775,000 share options outstanding, 1,242,500 of which are exercisable with remaining contractual lives ranging from 2.8 to 7.1 years. The average exercise price of exercisable share options is CAD\$7.02.

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 a 40,000 restricted share grant was awarded and shares issued by the Corporation to a new officer. The shares vested 25% at grant date and vest 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 share on January 31, 2012, with the 25% vested on grant date included in the Corporation's share-based payments expense for the quarter. The remaining value of the unvested restricted share grant is amortized over the individual vesting periods.

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

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

For the three months ended March 31, 2014, the Corporation has accrued obligations in the amount of \$0.3 thousand (March 31, 2013 - \$nil). Expenses associated with this award are recorded with an offset to accrued share based bonuses. When common shares are issued, the accruals will be reversed and the actual expenses will be offset to share capital of the Corporation.

Restricted Cash Bonus Program

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

The FVBCB incentive awards vest in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The fair value of FVBCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the second and third year of the award. The estimated FVBCB liability is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated FVBCB liability at March 31, 2014 was \$0.2 million (March 31, 2013 - \$0.3 million).

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

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

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

Dividends, interest income, other income and interest expense

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

For the three months ended March 31, 2014 and 2013, the Corporation recorded \$1.6 million and \$0.8 million as interest expense from long term debt and convertible debentures. This expense includes the coupon interest, accretion and amortization of issue costs.

Change in fair value of derivative liability

For the three months ended March 31, 2014 and 2013, the Corporation recorded \$0.2 million and \$0.4 million in gains resulting from the fair value measurement of the derivative liability associated with the debentures convertible option.

CASH FLOW ANALYSIS

The Corporation's cash and cash equivalents at March 31, 2014 were \$2.8 million, a decrease of \$0.3 million from \$3.1 million at December 31, 2013. The Corporation's primary source of funds for the quarter came from operations and the \$10 million advance under the long term Loan Agreement. Cash and cash equivalents were primarily used to fund \$7.5 million in connection with Bahar Energy 2013 and 2014 Annual Work Program and Budget deficit cash flows, debt service, corporate expenses and working capital.

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 19,692,309 common shares and 1,775,000 share options 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, 2013 available on SEDAR, www.sedar.com.

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 capital expenditures. 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, third party financing alternatives 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 credit available to the Corporation which could require that a portion, or all, of any potential 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;
- failure of aging infrastructure from former operations
- 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 investment in oil and natural gas properties is 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, related party transactions, restrictions on the use of expatriates in operations and other matters. In addition, corruption in Azerbaijan is pervasive at many levels which expose foreign companies like the Corporation to a number of financial and lease risks, all of which are beyond the control of the Corporation.

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. Noncompliance may have consequences which are out of proportion to the severity of the noncompliance. 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.

Reliance on Industry Partners

The Corporation relies on industry joint venture partners, including Baghlan, the other shareholder in Bahar Energy, and SOA, the other Contractor Party. The Corporation relies on these partners with respect to the evaluation, acquisition, development funding and timing of activities, as well as future production from the ERDPSA, and a failure or inability to perform by such partners could materially affect the prospects of 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 maintaining 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. Since Bahar Energy assumed control of the Bahar Project October 1, 2010, the 25 year term of the agreement for the Contract Rehabilitation Area will end by September 30, 2035.

Internal Controls

Effective internal controls over financial reporting are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. While, the Corporation undertakes 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 either recommended by the Corporation or resulting from material weaknesses reported by the Corporation's independent auditors, or difficulties encountered in their implementation, could impact the Corporation's results of operations or impair the ability 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.

At the operational level, BEOC is an entity in which the Corporation has an indirect interest through its minority shareholder position in Bahar Energy. As such, the Corporation relies upon certain employees of BEOC for the accumulation and reporting of financial data in respect of the Corporation's interests in Azerbaijan, and on regular physical visits to Azerbaijan by the Corporation's management and Auditors to overview this activity. A major disruption in the flow of information from Bahar Energy and BEOC could impact the accuracy of financial reporting and management information.

The Corporation's ability to affect change within the Bahar Energy and BEOC organizations related to internal controls is related to the Corporation's ability to influence Bahar Energy's board of directors and shareholders. Functionally, unanimous consent of Bahar Energy's board of directors and shareholders is required for most actions. Of key importance is the ability of the Corporation to second personnel into key management positions in the BEOC organization, because even with unanimous board of director direction there is no guarantee that the recommended changes will be timely and effectively implemented at the BEOC level.

The inability to reach unanimous consent by the board or directors and shareholders of Bahar Energy addressing issues of importance to the Corporation, or the inability to second the Corporation's personnel into key management positions inside BEOC's organization, may materially impact the Corporation's ability to obtain timely and reliable financial reports and the ability to prevent fraud. The failure of Bahar Energy or BEOC to take corrective actions on a timely basis can have a material adverse effect on the Corporation's financial condition and results of operations.

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 to 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, purchasers of petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations, 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 their capacity and willingness to participate in ongoing capital programs, potentially delaying the programs and the results of such programs 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 projects negative cash flow to continue for the near term into late 2014. The Corporation's failure to achieve profitability and positive cash flows from the Bahar project could have a material adverse effect on the Corporation's business, financial condition, operating results, ability to access additional equity or third party financing.

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 for the periods ended March 31, 2014 and 2013 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture.

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.

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 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 Annual Information Form for the fiscal year ended December 31, 2013 filed on May 2, 2014 and available on www.sedar.com.

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

On November 25, 2013, the Corporation secured additional funding through a \$25 million loan facility with the proceeds primarily dedicated to finance the Corporation's ongoing development operations for the Bahar Project over the next 12 to 18 months. At March 31, 2014 the Corporation has drawn the \$15 million of the loan facility to fund project expenditures and corporate obligations.

The Corporation has a \$10 million loan commitment to Bahar Energy for the funding of deficit cash flows associated with the 2014 Bahar Annual Work Program and Budget, which is subject to change. See Note 14 – "*Commitments and Contingencies*" to the unaudited consolidated Financial Statements for the period ended March 31, 2014.

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

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

Capital structure

(US\$000's)	March 31, 2014	December 31, 2013
Working capital ⁽¹⁾	1,773	1,734
Long term loan, convertible debt and shareholders' equity	57,653	46,924
Ratios of working capital to long term loan, convertible debt and shareholders' equity ⁽²⁾	3%	4%

(1) Working capital, presented here, is current assets net of current liabilities.

(2) Long term loan and convertible debt are combined with shareholder's equity due to the Company's right to settle debt by issuing shares.

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 Unaudited Condensed Consolidated Statements of Financial Position.

Related party transactions

A detailed discussion of related party transactions is included in Note 4 to the Unaudited Condensed Consolidated Financial Statements for the period ended March 31, 2014.

Contractual commitments and contingencies

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

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

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

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

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

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

The 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. Failing unanimity on a work program and budget, the proposal capable of satisfying the minimum work and production obligations under the ERDPSA for the calendar year in question that receives the highest percentage vote is deemed approved. Greenfields' Chief Operating Officer currently serves as the Bahar Energy representative on the Management Committee for BEOC, which has the

authority under the Joint Operating Agreement to exercise overall supervision, direction and control of all matters pertaining to the Joint Operations.

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

Financial instruments

A summary of the Corporation’s financial instruments is included in Note 15 to the Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2014.

ABBREVIATIONS

<u>Abbreviation</u>	<u>Description</u>
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