



Management's Discussion and Analysis

For the quarter ended March 31, 2015

(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, 2015 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2014. 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 29, 2015.

This MD&A and the audited 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 "**BEL**" 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 Contract Rehabilitation Area ("**Contract Rehabilitation Area**") including the Bahar Gas Field and the Gum Deniz Oil Field and the Exploration Area ("**Exploration Area**"). Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the "**Contractors or Contractor Parties**"). Bahar Energy formed Bahar Energy Operating Company Limited ("**BEOC**" or "**Operator**") for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA. The remaining 66.67% of Bahar Energy is owned by Baghlan Group Limited ("**Baghlan**").

First quarter 2015 financial results and highlights

- For the first quarter 2015, the Corporation recorded revenues of \$0.3 million and realized net loss of \$1.4 million. For the first quarter 2015, the results represented a loss per share (basic and diluted) of \$0.06. In comparison with the same period in 2014, the Corporation recorded revenues of \$0.4 million and realized net income of \$1.1 million. Also, for the same period in 2014, the Corporation realized income per share of \$0.06.
- The Corporation's 33.33% share of Bahar Energy entitlement sales volumes averaged 275 bbl/d and 4,800 mcf/d or 1,075 boe/d in the first quarter 2015. In comparison to the average volumes for the same periods in 2014, bbl/d, mcf/d and boe/d volumes decreased 37%, 47%, and 44%, respectively.
- For the first quarter 2015, the Corporation, through its interest in Bahar Energy, realized an average oil price of \$47.75. This price decreased in comparison with an average of \$102.36 per barrel realized for the same period in 2014. The Corporation realized an average gas price of \$3.96 per mcf for the same periods, which is a contractually constant fixed price.
- For the first quarter 2015, the Corporation's 33.33% share of Bahar Energy financial results realized net income of \$0.2 million. These results compare to net income \$3.2 million for the same period in 2014.
- On January 22, 2015 the Corporation completed a non-brokered private placement of 2,000,000 common shares ("**Common Shares**"), at a price of USD\$0.90 per Common Share (approximately CAD\$1.11 per Common Share based on the Bank of Canada noon exchange rate on January 22, 2015 of \$1.00 USD = \$1.2371 CAD), for aggregate gross proceeds of \$1,800,000 (approximately CAD\$2,226,780). The Common Shares were subject to a four-month hold period that expired on May 23, 2015.
- Pursuant to the terms of the investment and shareholders agreement with respect to Bahar Energy (the "**Shareholders Agreement**"), as at March 31, 2015, Greenfields Petroleum International Company Ltd. ("**GPIC**"), a wholly-owned subsidiary of the Corporation, had funded by way of loans to Bahar Energy, a total of \$20.8 million of defaulted obligations (the "**Default Amount**") of the other shareholder of Bahar Energy, Baghlan, including \$2.3 million funded in February 2015.

Baghlan has failed to fund its share of the costs of Bahar Energy in accordance with the Shareholders Agreement and its loan funding obligation to Bahar Energy since January 2014. The Shareholders Agreement provides that in the event of a default by a shareholder in a funding obligation, the other shareholder is required, by additional loan, to provide such funds to Bahar Energy. To the extent that Baghlan defaults on its future funding obligations, Greenfields anticipates that it may also fund such amounts by further loans to Bahar Energy.

As a result of the loan by GPIC of the Default Amount to Bahar Energy, the Shareholders Agreement stipulates that:

- all of Baghlan's loans to BEL have become "last in" loans and will not be repaid by BEL until all amounts outstanding under all of GPIC's loans to BEL, including the payment of the Default Amount, have been paid by BEL to GPIC in full, regardless of when such loans were made by Baghlan;
- Baghlan is deemed to have assigned to GPIC a share of its dividends equal to the sum of: (i) the Default Amount; (ii) Greenfields' Cost of Funding (as defined in the Shareholders Agreement) of such Default Amount; and (iii) a default rate of 4% on such Default Amount computed from and including the date on which the Default Amount has been funded by GPIC to, but excluding, the date Baghlan remedies the default (the "**Default Interest**"); and
- the right of any directors appointed by Baghlan to BEL to vote at a meeting of the board of directors of BEL is suspended until the Default Amount has been paid in full, together with the Default Interest.

Operating highlights and plans

- Work was completed during the first quarter 2015 on the acquisition of modern 3-D seismic over the Gum Deniz Oil Field. The total number of patches shot was 96 square kilometers. Processing of the data on an expedited basis (Fast Track Volume) was completed and provided to BEOC in early May. This volume will allow for early structural mapping and support BEOC's review of development well locations for possible drilling beginning in the first quarter 2016.
- The more detailed pre-stack time migration ("PSTM") processing of the 3-D data for Gum Deniz has commenced with PGS-Almaty in Kazakhstan after export of the data to the processor was approved by the Azerbaijan government authorities. The processing time is scheduled to take five months. The PSTM processed data will then be integrated with the well control to prepare a revised Gum Deniz reservoir model to improve well take-point selection for the drilling program.
- A Bahar Field Reservoir Study, awarded to ERA Consultants in February, was contracted for the preparation of a detailed reservoir model to be used in selecting re-development opportunities, both workovers and drilling in the Bahar Gas Field. The initial draft of the study was completed and a report issued for managements' review in early May. The next phase will be the integration with the recently acquired 50 line kilometers of 2-D seismic, currently being processed, after which the final report is expected in the third quarter 2015.

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SELECTED QUARTERLY INFORMATION

Greenfields Petroleum Corporation

	Three months ended March 31,	
(US\$000's, except as noted)	2015	2014
Financial		
Revenues	337	427
Net income (loss)	(1,352)	1,101
Per share, basic and diluted	(\$0.06)	\$0.06
Capital Items		
Cash and cash equivalents	65	2,763
Total Assets	84,608	60,129
Working capital	735	1,773
Long term loan, convertible debt and Shareholders' equity	60,103	57,653

Bahar Energy Limited (Joint Venture)

(US\$000's, except as noted)	Total Joint Venture		Corporation's share	
	2015	2014	2015	2014
Financial				
Revenues	9,430	22,898	3,143	7,632
Net income	747	9,657	248	3,218
Operating				
Average Entitlement Sales Volumes ⁽¹⁾				
Oil and condensate (bbl/d)	826	1,304	275	435
Natural gas (mcf/d)	14,400	26,964	4,800	8,987
Barrel oil equivalent (boe/d)	3,226	5,798	1,075	1,933
Average Oil Price				
Oil price (\$/bbl)	\$47.75	\$102.36	\$47.75	\$102.36
Net realization price (\$/bbl)	\$46.36	\$100.46	\$46.36	\$100.46
Brent oil price (\$/bbl)	\$53.98	\$108.14	\$53.98	\$108.14
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items				
Total Assets	200,849	198,482	66,943	66,154
Total Liabilities	40,627	46,658	13,541	15,551
Net Assets	160,222	151,824	53,402	50,603

⁽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

(US\$000's, except as noted)	GREENFIELDS PETROLEUM CORPORATION							
	2015		2014			2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenues								
Management service fees	337	536	612	469	427	486	575	684
Net income (loss) Per share, basic and diluted	(1,352) (\$0.06)	(2,808) (\$0.14)	(717) (\$0.04)	(4,900) (\$0.24)	1,101 \$0.06	66 \$0.00	(58) \$0.00	517 \$0.03
Capital Items								
Cash and cash equivalents	65	736	2,216	4,910	2,763	3,068	3,986	6,721
Total Assets	84,608	82,192	81,830	65,772	60,129	49,337	44,477	41,973
Working capital	735	(1,466)	3,537	4,865	1,773	1,734	3,525	7,716
Long term loan, convertible debt and shareholders' equity	60,103	57,674	63,307	63,802	57,653	46,924	42,244	39,704

(US\$000's, except as noted)	CORPORATION'S SHARE OF BAHAR ENERGY LIMITED (JOINT VENTURE)							
	Financial							
Revenues								
Petroleum and natural gas Transportation & storage fees	2,893 250	4,091 210	5,022 440	5,495 322	7,207 425	7,689 407	7,827 396	6,605 393
Net income (loss)	3,143 248	4,301 (612)	5,462 849	5,817 (186)	7,632 3,218	8,096 1,818	8,223 1,578	6,998 1,090
Operating								
Average Entitlement Sales Volumes⁽¹⁾								
Oil and condensate (bbl/d) Natural gas (mcf/d) Barrel oil equivalent (boe/d)	275 4,800 1,075	346 6,263 1,390	328 6,050 1,336	321 6,983 1,485	435 8,987 1,933	522 7,352 1,747	573 6,334 1,628	556 4,645 1,330
Prices								
Average oil price (\$/bbl) Natural gas price (\$/mcf)	\$47.75 \$3.96	\$56.48 \$3.96	\$93.48 \$3.96	\$101.83 \$3.96	\$102.36 \$3.96	\$104.34 \$3.96	\$106.39 \$3.96	\$97.52 \$3.96
Capital Items								
Total Assets	66,943	65,560	71,870	66,424	66,154	58,495	55,115	46,396
Total Liabilities	13,541	12,129	17,759	14,058	15,551	15,593	16,817	13,381
Net Assets	53,402	53,431	54,111	52,366	50,603	42,902	38,298	33,015

⁽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.

RESULTS OF OPERATIONS FOR BAHAR ENERGY LIMITED (JOINT VENTURE)

Revenues (US\$'000's)	Total Joint Venture		Corporation's share	
	Three months ended March 31,		2015	2014
Petroleum	3,549	12,013	1,183	4,004
Natural gas	5,131	9,610	1,710	3,203
Total petroleum and natural gas	8,680	21,623	2,893	7,207
Transportation and storage fees	750	1,275	250	425
Total revenue	9,430	22,898	3,143	7,632

The Corporation's share of Bahar Energy petroleum revenues for the three months ended March 31, 2015 were \$1.2 million compared to \$4.0 million for the same period in 2014. Natural gas revenues for the three months ended March 31, 2015 were \$1.7 million compared to \$3.2 million for the same period in 2014. 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 decline in petroleum revenues is directly related to the failure of Baghlan and SOA to fund their share of the Bahar project 2014 and 2015 capital work programs resulting in the suspension of drilling operations at the end of Q1 2014 and BEOC's reduced ability to conduct planned workovers in the Bahar gas and Gum Deniz oil fields. Revenues have also been negatively impacted by the general worldwide decline in oil prices that have continued into 2015.

The average prices received for crude oil during the three months ended March 31, 2014 were \$47.75 per barrel compared to average prices of \$102.36 for the same period in 2014. 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, 2015 was 275 bbl/d, a 37% decline year over year when compared to production of 321 bbl/d for the same period in 2014. Natural gas daily entitlement production for the three months ended March 31, 2015 was 4,800 mcf/d, a 47% decrease year over year when compared to production of 8,987 mcf/d for the same period in 2014.

The Corporations share of Bahar Energy's oil equivalent daily production, during the three months ended March 31, 2015 was 1,075 boe/d, a 44% decline year over year when compared to the production of 1,933 boe/d for the same period in 2014.

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

\$/bbl	Three months ended March 31	
	2015	2014
Average crude oil sales price	47.75	102.36
Transportation fees	(0.87)	(1.05)
Marketing fees	(0.51)	(0.85)
Other costs ⁽²⁾	(0.01)	(0.01)
Crude oil net realization price	46.36	100.45
\$/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, 2015, Bahar Energy's transportation and storage revenues were \$0.8 million (\$0.3 million for the Corporation's 33.33% share) compared to \$1.3 million (\$0.4 million for the Corporation's 33.33% share) for the same periods in 2014. The transportation and storage revenues are based on a fee arrangement to supply excess storage and processing capacity available in the Bahar facilities to another local producer.

Operating and administrative expenses

For the three months ended March 31, 2015, Bahar Energy's operating and administrative expenses were \$6.3 million (\$2.1 million for the Corporation's 33.33% share) compared to \$10.2 million (\$3.3 million for the Corporation) for the same periods in 2014. The major areas impacting the reduced operating and administrative expenses during the current year are permanent staff reductions, lower insurance costs, replacing fixed monthly service contracts with callout service agreements, reductions in operating materials and supplies purchases as well as lower repair and maintenance expenses. In addition, during the first quarter 2015 Bahar Energy has benefitted from a 35% devaluation of the Azerbaijan Manat to US dollar conversion rate resulting in a significant cost reduction in Manat based expenditures. The Central Bank of Azerbaijan announced the devaluation on February 21, 2015, so the Corporation expects further benefits to be realized in reduced local employment costs and local goods and services billed in Manats as the full impact of devaluation is realized in future periods.

RESULTS OF OPERATIONS FOR GREENFIELDS PETROLEUM CORPORATION

Revenues

(US\$000's)	Three months ended March 31	
	2015	2014
Management service fees	337	427

Management and service fees

For the three months ended March 31, 2015, the Corporation recorded service fee revenue of \$0.3 million and \$0.4 million for the same period in 2014. 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 year to date reduction in management service fees charged BEOC in 2015 versus 2014 is the result of the termination of geological services provided in Azerbaijan by the Corporation's geologist in December 2014.

Administrative expenses

(US\$000's)	Three months ended March 31,	
	2015	2014
Cash expenses		
Employee wages and benefits	542	871
Professional service costs	249	251
Office, travel and other	277	275
Total cash expenses	1,068	1,397
Stock-based payment expense	116	455
Total gross administrative	1,184	1,852
Services fees billed to third party and affiliates	(337)	(427)
Administrative expenses net of services fees	847	1,425

Administrative expenses, excluding non-cash stock-based compensation, for the three months ended March 31, 2015 were \$1.1 million compared to \$1.4 million for the same period in 2014. The reduction in administrative expenses is primarily related to the absence of bonuses in 2015 that were included in 2014 expenses.

For the three months ended March 31, 2015, net administrative expenses were \$0.8 million compared to \$1.4 million in 2013.

Share-based payments

(US\$000's)	Three months ended March 31,	
	2015	2014
Share options	49	107
Share awards	80	305
Total share settled	129	412
Restricted cash bonus awards – cash settled	(13)	43
Total Share Based Payments	116	455

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, 2015 were \$116 thousand (March 31, 2014 - \$455 thousand).

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.

On May 7, 2014 the Corporation completed the award of 140,000 share options to officers and employees at an exercise price of CAD\$3.25 per common share. These share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date.

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 December 31, 2014 have remaining contractual lives ranging from 1.8 to 6.1 years.

For the three months ended March 31, 2015 and 2014, the Company recorded share options expense of \$49 thousand and \$107 thousand, respectively. The share options expense is offset to the Company's share-based payment reserve.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD\$)	Number Exercisable
Aug. 31, 2010	555,000	Aug. 31, 2020	5.4	6.50	555,000
Nov. 16, 2010	100,000	Nov. 16, 2020	5.6	8.50	100,000
Mar. 14, 2011	30,000	Mar. 14, 2021	6.0	9.50	30,000
May 19, 2011	100,000	May 19, 2021	6.1	9.00	100,000
Feb. 1, 2012	80,000	Feb. 1, 2017	1.8	6.00	80,000
Jun. 25, 2012	150,000	Jun. 25, 2017	2.2	13.00avg	150,000
Oct. 11, 2013	570,000	Oct. 11, 2018	3.5	3.20	390,000
Oct. 25, 2013	40,000	Oct. 25, 2018	3.6	3.00	20,000
Nov. 7, 2013	50,000	Nov. 7, 2018	3.6	2.90	25,000
July 8, 2014	121,250	July 8, 2019	4.3	3.25	35,000
	1,796,250				1,485,000

As at March 31, 2015 the Corporation has a total of 1,796,250 share options outstanding, 1,485,000 of which are exercisable with remaining contractual lives ranging from 1.8 to 6.1 years. The average exercise price of exercisable share options is CAD\$6.44.

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 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 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 ended March 31, 2015, the Corporation recorded share-based payments expense related to this restricted award of \$nil (March 31, 2014 - \$15 thousand).

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 were

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 1, 2014 and 2015. For the three months ended March 31, 2015 the Corporation recorded share-based payment expense of \$80 thousand (March 31, 2014 - \$290 thousand) in relation to the issuance of 410,000 shares at the price of CAD\$3.00 per common share.

For the three months ended March 31, 2015, the Corporation has recorded total share-based payment expense for restricted share awards of \$80 thousand (March 31, 2014 - \$305 thousand). Expenses associated with restricted share awards are recorded with an 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, 2015 was \$93 thousand (March 31, 2014 - \$239 thousand).

On January 20, 2015, the Corporation granted 107,866 FVBCB units (the “**Deferral Bonus Units**”) to directors, officers and employees as incentive for the settlement deferral of 94,533 units vesting on January 1, 2015 (the “**Original Vesting Date**”). The deferral bonus units have a vesting date of January 1, 2016 (the “**Deferral Vesting Date**”) and will be settled at the share price of the Corporation’s common share on either the original vesting date or the deferred vesting date whichever share price is higher.

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, 2015 was \$3 thousand (March 31, 2014 - \$187 thousand).

Grant Date	FVBCB Units	ABCB Units	ABCB Units			
			Grant Price \$CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	76,667	122,500	4.80	122,500	June 4, 2017	2.2
Sept. 4, 2012	6,666	10,000	5.65	10,000	Sept. 4, 2017	2.4
Oct. 5, 2012	13,334	30,000	5.63	30,000	Oct. 5, 2017	2.5
Dec. 1, 2012	5,733	3,600	4.80	3,600	Dec. 1, 2017	2.7
Dec. 24, 2012	135,000	160,000	3.50	120,000	Dec. 24, 2018	3.7
Jan.1, 2015	10,000	-	-	-	-	-
	247,400	326,100		286,100		

For the three months ended March 31, 2015, the Corporation recorded restricted cash bonus expense of (\$13) thousand (March 31, 2013 - \$43 thousand).

Dividends, interest income, other income and interest expense

(US\$000's)	Three Months ended March 31,	
	2015	2014
Interest income ⁽¹⁾	(726)	-
Interest expense – short term notes ^{(2) (3)}	1,585	808
Interest expense – convertible debentures ⁽²⁾	717	762
Interest expense – long term loans ⁽¹⁾	616	-
	2,192	1,570

⁽¹⁾ Interest income charged to Bahar Energy includes interest expense on long term loan plus approximately \$60 thousand in transaction costs.

⁽²⁾ Interest expense on the short term loan includes coupon interest and amortization of transaction costs. Interest expense on convertible debentures includes accretion of debentures, coupon interest and amortization of transaction costs.

⁽³⁾ This loan was classified as a long term loan in March 2014 but was reclassified to short term at December 31, 2014 as it matures on December 31, 2015.

Change in fair value of derivative liability

For the three months and year ended March 31, 2015, the Corporation recorded gains of \$20 thousand compared to gains of \$206 thousand for the same period in 2014. The changes result 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, 2015 were \$65 thousand, a decrease of \$2.7 million when compared to the balance of \$2.8 million at March 31, 2014. The Corporation's primary source of funds has come from operations, the \$20.8 million drawdown on the subordinate loan agreement through February 2015, the \$25 million advanced under the senior long term loan agreement and \$1.8 million private placement completed in January 2015. Cash and cash equivalents were primarily used to fund \$10.8 million of the Corporation's share of Bahar Energy's 2014 Annual Work Program and Budget ("WP&B") deficit cash flows, the Baghlan Default Amount of \$20.8 million, 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 22,105,438 common shares and 1,796,250 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, 2014 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 will likely 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. The failure of either or both the other Bahar Energy shareholder or the other contractor party in the ERDPSA to contribute their share of project funding may materially impact the Corporation's and BEOC's ability to fully execute the Bahar project development plan.

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 will 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. 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's existing financial liabilities for the periods ended March 31, 2015 and 2014 arose primarily from corporate obligations related to its participation in the Bahar Energy joint venture. As at March 31, 2015 the Corporation's ability to continue as a going concern is dependent on management's ability to secure adequate financing required to meet existing corporate obligations, and to secure funding, either directly or indirectly at the project level, to meet future requirements of the Bahar project. 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.

The Corporation's obligations under its existing loan arrangements include interest payments on short term and long term loans and on the existing convertible debenture. In addition, the Corporation's \$25 million loan facility entered into on November 25, 2013 is scheduled for repayment on December 31, 2015.

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. The 2015 approved WP&B for ERDPSA reflects a positive cash flow generated for the Bahar Energy 80% interest in the Bahar project with SOA funding its 20% share. As such, the Corporation has not made a 2015 loan commitment to fund Bahar Energy other than for its share of the TPR1 bonus obligation of Bahar Energy in the amount of \$2.0 million (\$667 thousand net to the Corporation's interest).

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.

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, 2014 filed on April 30, 2015 and available on www.sedar.com.

Our ability to fund the capital requirements of the project also depend on the other partners in the project meeting their contractual commitments. At present, Baghlan has defaulted on their obligations for funding their 2/3 interest in BEL, and we await the results of the ongoing auction of this interest to a new partner. Also, on April 17, 2014, BEOC informed SOCAR that TPR2, as required under the ERDPSA, was achieved on March 31, 2014. TPR2 refers to Target Production Rate 2 whereby BEOC must maintain a daily production rate for 30 consecutive days equal to 2 times the average 2008 production rate, that target rate being 9,258 boe/d. With that obligation met, SOA, with a 20% interest in the Bahar project, was obligated to begin paying its share of project costs April 1, 2014. SOA, however, has not met its obligation to fund the 20% share of Bahar project expenditures from the April 1, 2014 effective date which resulted in Bahar Energy funding the SOA share in 2014 and SOA's cash call payable to BEOC during the first quarter 2015 past due.

Capital Structure

(US\$000's)	March 31, 2015	December 31, 2014
Working capital ⁽¹⁾	735	(1,466)
Long term loan, convertible debt and shareholders' equity	60,103	57,674
Ratios of working capital to long term loan, convertible debt and shareholders' equity ⁽²⁾	1%	(3%)

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

⁽²⁾ Convertible debt is combined with shareholder's equity due to the Corporation's right to settle debt by issuing shares.

The Corporation will pursue various financing options for its current corporate obligations and its contractual commitments under the ERDPSA with cash on hand, non-cash working capital, cash from operations and additional issuances of debt and equity securities.

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 for the three months ended March 31, 2015.

Related party transactions

A detailed discussion of related party transactions is included in Note 4 to the Unaudited Condensed Consolidated Statements of Financial Position for the three months ended March 31, 2015.

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Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of March 31, 2015:

(US\$000's)	2015	2016	Thereafter
Operating leases ⁽¹⁾	62	-	-
TPR1 Bonus payment	667	-	-
Short term loan – interest payments ⁽²⁾	3,325	-	-
Short term loan ⁽²⁾	25,000	-	-
Long term loan – interest ⁽³⁾	-	-	12,087
Long term loan ⁽³⁾	-	-	20,835
Debentures – interest payments ⁽⁴⁾	1,684	1,684	842
	30,738	1,684	33,764

⁽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 \$25 million drawn down of the available \$25 million as at March 31, 2015 under the short term Loan Agreement. The loan matures on December 31, 2015.

⁽³⁾ Both long term loan principal and accrued interest have a maturity date of June 30, 2018.

⁽⁴⁾ The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the March 31, 2015 exchange rate of 1.2683 CAD/USD.

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' President and Chief Executive Officer currently serves as the Bahar Energy representative to the Steering Committee under the ERDPSA and to the Management Committee for BEOC. The latter has the authority under the Joint Operating Agreement to exercise overall supervision, direction and control of all matters pertaining to the Joint Operations.

The 2015 approved WP&B for the ERDPSA reflects a positive cash flow generated for the Bahar Energy 80% interest in the Bahar project with SOA funding its 20% share. As such, the Company has not made a 2015 loan commitment to fund Bahar Energy other than for its share of the TPR1 bonus obligation of Bahar Energy in the amount of \$2.0 million (\$667 thousand net to the Company's interest).

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 17 to the Condensed Consolidated Financial Statements for the three months ended March 31, 2015.

SUBSEQUENT EVENTS

\$2 Million Increase in Senior Debt Credit Facility

On May 27, 2015 the Corporation secured an increase to the existing credit facilities made available to the Corporation under the loan agreement dated November 25, 2013 (“**Loan Agreement**”) with an arm’s length third party (“**Lender**”) for an additional amount of \$2,000,000 (the “**New Tranche**”). The funds available under the New Tranche are intended to be used by the Corporation to finance the Corporation’s ongoing development operations in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field.

The New Tranche is secured under the terms of the Loan Agreement, bears interest at a rate of 15% per annum, and is due and payable by no later than December 31, 2015. Earlier payment may occur upon the receipt of certain proceeds from the Corporation’s joint venture, Bahar Energy Limited. A commission of CAD \$500,000 will be payable when the Loan Agreement is paid off.

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
mbbbls	thousand barrels
mcf	thousand cubic feet
mmcfcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcfd	million cubic feet per day
bcf	billion cubic feet
km	Kilometer
sq km	square kilometer