



# Management's Discussion and Analysis

For the quarter ended March 31, 2016

(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, 2016 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2015. Additional information relating to Greenfields is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.greenfields-petroleum.com](http://www.greenfields-petroleum.com). Unless stated otherwise, all references to monetary values are in the United States dollar. This document is dated May 27, 2016.

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 owns a 33.33% interest in Bahar Energy Limited ("**Bahar Energy**" or "**BEL**" or "**Joint Venture**"), a joint venture that on December 22, 2009 entered into an Exploration, Rehabilitation, Development and Production Sharing Agreement (the "**ERDPSA**") with the State Oil Corporation of Azerbaijan ("**SOCAR**") and its affiliate SOCAR Oil Affiliate ("**SOA**") in respect of the offshore block known as the Bahar Project ("**Bahar Project**"), which 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**"). The remaining 66.67% of Bahar Energy is owned by Baghlan Group Limited (in liquidation) ("**Baghlan**").

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 Corporation Limited ("**BEOC**" or "**Operator**") for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

### **First quarter 2016 financial results and operating highlights**

- On March 7, 2016 the Corporation, through its wholly-owned subsidiary, Greenfields Petroleum International Company Ltd. ("**GPIC**"), entered into a share purchase agreement with Baghlan Group Limited (in liquidation) and its liquidator, as agent for and on behalf of Baghlan (the "**Liquidator**"), pursuant to which, GPIC agreed to purchase Baghlan's 66.67% interest (the "**Interest**") in Bahar Energy and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan (the "**Acquisition**"), for cash consideration of \$6.0 million.
- On March 4, 2016 the Corporation signed the fifth amending agreement (the "**Fifth Amending Agreement**") to the loan agreement dated November 25, 2013 (the "**Loan Agreement**") with its lenders (the "**Lenders**"). Through the Fifth Amending Agreement, the Corporation extended the loan maturity date under the Loan Agreement until May 16, 2016 and received additional advance of \$7.0 million to fund the purchase price with respect to the Acquisition and for working capital purposes. On May 16, 2016 the Corporation signed the sixth amending agreement (the "**Sixth Amending Agreement**") to extend the loan maturity date to June 30, 2016.
- BEL's entitlement sales volumes averaged 886 bbl/d and 13,629 mcf/d or 3,158 boe/d in the first quarter of 2016. In comparison to the average volumes for the same quarter in 2015, volumes increased 7% for oil, and decreased 5% for gas and 2% for boe/d, respectively. The Corporation's 33.33% share of BEL entitlement sales volumes averaged 295 bbl/d and 4,543 mcf/d or 1,052 boe/d in the first quarter of 2016.
- For the first quarter of 2016, the Corporation, through its interest in BEL, realized an average oil price of \$29.99 per barrel, a decrease from \$46.36 per barrel realized for the same period in 2015. The Corporation realized an average natural gas price of \$3.96 per mcf for the same period, which is a contractually constant fixed price.
- For the first quarter of 2016, the Corporation's 33.33% share of BEL financial results represented net income of \$0.3 million. These results compare to a net income of \$0.2 million for the same period in 2015.
- For the first quarter of 2016, the Corporation realized net losses of \$3.6 million which represents a loss per share (basic and diluted) of \$0.16. In comparison with the same period in 2015, the Corporation realized net losses of \$1.4 million with a loss per share of \$0.06.
- BEOC continues to make progress with its cost savings programs realizing a 42% reduction in operating and administrative costs when comparing first quarter 2016 versus first quarter 2015. The Bahar Project has seen cost savings in areas such as: (i) staffing, as the organization is further streamlined, and (ii) reduced third party services costs, as some of the fixed monthly service

contracts have been eliminated and the internal workforce has been trained to perform these services. The project has also seen significant cost savings from devaluations of the Manat to US dollar of 35% on February 2015 and 47% on December 2015, which impacted local employment costs, services and procurement.

### **Operating Highlights and Plans**

- The 2016 budget for BEOC was approved by the operating company's contractor management committee on March 1, 2016. The approved budget reflects a total spending of \$44.2 million represented by \$22.2 million in operating expenses and \$22.0 in capital expenditures. During the first quarter of 2016, operating expenses were mainly in line with budget while capital expenditures were under budget as a result of capital projects being optimized or delayed.
- BEOC completed 15 workovers during the first quarter of 2016 primarily in the Gum Deniz Oil Field, where production additions helped stem production declines in producing wells. At the end of the first quarter, BEOC secured access to a crane barge to mobilize workover rigs to the Bahar Gas Field and had two gas workovers in progress at the end of the quarter. Gas workovers will continue for the foreseeable future with plans to add a third rig when available.
- BEOC continued progress on several construction projects. The activity in first quarter of 2016 focused on platform refurbishment, causeway strengthening, facility operation and safety upgrades. BEOC's construction team performed most of the platform and causeway work, eliminating the need to contract with third parties for these services.
- The Bahar Gas Field static reservoir and geological model study completed in 2015 identified numerous workover and drilling opportunities. The workovers have been prioritized on the basis of potential and well condition. The platform refurbishment schedules have been modified to conform to the workover program. With recent access to the workover rigs noted above, BEOC began implementation of the study's workover program in late first quarter of 2016.
- The data obtained from the Gum Deniz Oil Field 104 sq km 3D seismic acquisition, processing, and interpretation program completed in 2015 was integrated with existing well control into a full field geophysical, geological and reservoir study, and a full field static model which was completed in February 2016. The model identified the potential for additional workover and drilling targets in the field. A revised development plan was proposed, which includes 40 new development wells to be drilled from one new and three existing platforms. Additionally, 22 recompletion candidates in existing wells were identified and put in the work program for 2016 and beyond.

### **Acquisition of remaining 66.67% interest in BEL and Restructuring of Senior Debt**

On March 7, 2016 the Corporation, through its wholly-owned subsidiary, GPIC, entered into a share purchase agreement with Baghlan Group Limited (in liquidation) and its liquidator, as agent for and on behalf of Baghlan, pursuant to which, GPIC agreed to purchase Baghlan's 66.67% interest in BEL and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan. The aggregate consideration payable by GPIC for the Acquisition includes a cash payment of \$6.0 million, and a release and discharge of liabilities, claims and demands in relation to certain default loan amounts and any and all other obligations, liabilities, claims or demands of any kind owed to BEL, BEOC and/or Greenfields by Baghlan (the "**Default Obligations**"). The Corporation estimates the accrued Default Obligations to be an aggregate of \$57.6 million. Upon completion of the Acquisition, BEL will become a wholly-owned subsidiary of GPIC. The cash consideration of \$6.0 million has been placed into escrow pending satisfaction of certain conditions to the completion of the Acquisition. Greenfields anticipates closing of the Acquisition to occur in June 2016. Completion of the Acquisition is subject to certain closing conditions, including, without limitation, receipt of the approval of the TSX Venture Exchange (the "**TSXV**") and other necessary regulatory approvals.

In order to fund the Acquisition, the Corporation has agreed to restructure its debt and, in that regard, on March 4, 2016 signed the Fifth Amending Agreement. The Fifth Amending Agreement provides for, among other things: (i) additional funding in the aggregate amount of \$7.0 million to satisfy the purchase price in respect of the Acquisition and for working capital purposes; and (ii) an extension of the maturity date under the Loan Agreement from March 15, 2016 to May 16, 2016 in order to facilitate the completion of the Restructuring Transaction (as defined below). On May 16, 2016 the Corporation signed the Sixth Amending Agreement to extend the loan maturity date to June 30, 2016. See *Subsequent Events*.

In connection with the Fifth Amending Agreement, the Corporation has agreed to: (i) obtain the approval of holders ("**Debentureholders**") of the 9.00% convertible unsecured subordinated debentures due May 31, 2017 (the "**Debentures**") for the conversion (the "**Debenture Conversion**") of the CAD\$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.2 million common shares in the capital of the Corporation ("**Common Shares**"); (ii) issue, in connection with the completion of the restructuring, up to an aggregate of 2,394,000 Common Shares for every \$1,000,000 of principal due to the Lenders under the Loan Agreement; and (iii) issue, in connection with the completion of the restructuring, an equivalent number of Common Share purchase warrants ("**Warrants**") to the Lenders (collectively, the "**Restructuring Transaction**"). The Debenture Conversion will be implemented upon the approval of the Debentureholders, by way of extraordinary resolution, pursuant to and in accordance with the terms of the indenture governing the Debentures.

Contemporaneous with the completion of the Restructuring Transaction, the Corporation anticipates signing an amending agreement to further extend the maturity date under the Loan Agreement to December 31, 2017. The Acquisition and Restructuring Transaction will allow the Corporation to become the 100% shareholder of BEL, to reduce debt and related annual cash interest and to reduce financing expenses.

Both the Acquisition and Restructuring Transaction remain subject to approval in their entirety by the TSXV.

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## SELECTED QUARTERLY INFORMATION

### Greenfields Petroleum Corporation

(US\$000's, except as noted)	Three months ended March 31,	
	2016	2015
<b>Financial</b>		
Revenues	334	337
Net loss	(3,602)	(1,352)
Per share, basic and diluted	(\$0.16)	(\$0.06)
<b>Capital Items</b>		
Cash and cash equivalents	906	65
Total assets	97,220	84,608
Working capital	(14,345)	735
Long term loan, convertible debt and shareholders' equity	53,990	60,103

### Bahar Energy Limited (Joint Venture) <sup>(2)</sup>

(US\$000's, except as noted)	Total Joint Venture		Corporation's share	
	Three months ended March 31,			
	2016	2015	2016	2015
<b>Financial</b>				
Revenues	7,399	9,430	2,466	3,143
Net income	771	747	257	248
<b>Operating</b>				
Average Entitlement Sales Volumes <sup>(1)</sup>				
Oil and condensate (bbl/d)	886	826	295	275
Natural gas (mcf/d)	13,629	14,400	4,543	4,800
Barrel oil equivalent (boe/d)	3,158	3,226	1,052	1,075
Average Oil Price				
Oil price (\$/bbl)	\$30.84	\$47.75	\$30.84	\$47.75
Net realization price (\$/bbl)	\$29.99	\$46.36	\$29.99	\$46.36
Brent oil price (\$/bbl)	\$33.84	\$53.98	\$33.84	\$53.98
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
<b>Capital Items</b>				
Total Assets	197,699	200,849	65,893	66,943
Total Liabilities	35,335	40,627	11,777	13,541
Net Assets	162,364	160,222	54,116	53,402

<sup>(1)</sup> 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.

<sup>(2)</sup> The Corporation's 33.33% interest in Bahar Energy Limited is disclosed in the Corporation's Unaudited Condensed Consolidated Financial Statements as a Joint Venture and accounted for using the equity method.

## SUMMARY OF QUARTERLY RESULTS

	Greenfields Petroleum Corporation							
<i>(US\$000's, except as noted)</i>	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Financial</b>								
<b>Revenues</b>								
Management service fees	334	392	356	470	337	536	612	469
Net loss	(3,602)	(1,501)	(1,676)	(2,995)	(1,352)	(2,808)	(717)	(4,900)
Per share, basic and diluted	(\$0.16)	(\$0.07)	(\$0.08)	(\$0.14)	(\$0.06)	(\$0.14)	(\$0.04)	(\$0.24)
<b>Capital Items</b>								
Cash and cash equivalents	906	100	30	710	65	736	2,216	4,910
Total Assets	97,220	89,523	88,171	87,683	84,608	82,192	81,830	65,772
Working capital	(14,345)	(6,478)	(4,207)	(2,016)	735	(1,466)	3,537	4,865
Long term loan, convertible debt and shareholders' equity	53,990	55,600	56,770	58,488	60,103	57,674	63,307	63,802

	Corporation's Share of Bahar Energy Limited (Joint Venture) <sup>(2)</sup>							
<i>(US\$000's, except as noted)</i>	2016	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Financial</b>								
<b>Revenues</b>								
Petroleum and natural gas	2,466	2,854	3,520	3,456	2,893	4,091	5,022	5,495
Transportation & storage fees	-	-	-	129	250	210	440	322
	2,466	2,854	3,520	3,585	3,143	4,301	5,462	5,817
Net income (loss)	257	1,103	474	481	248	(612)	849	(186)
<b>Operating</b>								
<b>Average Entitlement Sales Volumes <sup>(1)</sup></b>								
Oil and condensate (bbl/d)	295	341	413	347	275	346	328	321
Natural gas (mcf/d)	4,543	5,019	5,163	4,793	4,800	6,263	6,050	6,983
Barrel oil equivalent (boe/d)	1,052	1,178	1,273	1,145	1,075	1,390	1,336	1,485
<b>Prices</b>								
Average oil price (\$/bbl)	\$30.84	\$32.65	\$43.13	\$54.92	\$47.75	\$56.48	\$93.48	\$101.83
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96
<b>Capital Items</b>								
Total Assets	65,893	65,965	68,152	67,684	66,943	65,560	71,870	66,424
Total Liabilities	11,777	12,011	13,762	13,671	13,541	12,129	17,759	14,058
Net Assets	54,116	53,954	54,390	54,013	53,402	53,431	54,111	52,366

(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) The Corporation's 33.33% interest in Bahar Energy Limited is disclosed in the Corporation's Unaudited Condensed Consolidated Financial Statements as Joint Venture and accounted for using the equity method.

## RESULTS OF OPERATIONS FOR BAHAR ENERGY LIMITED (JOINT VENTURE)

<b>Revenues</b>	<b>Total Joint Venture</b>		<b>Corporation's share</b>	
	<b>Three months ended March 31,</b>			
<i>(US\$000's)</i>	2016	2015	2016	2015
Petroleum	2,488	3,549	829	1,183
Natural gas	4,911	5,131	1,637	1,710
Total petroleum and natural gas	7,399	8,680	2,466	2,893
Transportation and storage fees <sup>(1)</sup>	-	750	-	250
<b>Total revenues</b>	<b>7,399</b>	<b>9,430</b>	<b>2,466</b>	<b>3,143</b>

<sup>(1)</sup> During second quarter 2015 the facilities sharing agreement covering transportation and storage services provided by BEOC to a third party operator was terminated.

The Corporation's share of Bahar Energy petroleum revenues for the three months ended March 31 2016 was \$0.8 million compared to \$1.2 million for the same period in 2015. The Corporation's share of Bahar Energy natural gas revenues for the three months ended March 31, 2016 was \$1.6 million compared to \$1.7 million for the same period in 2015. 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 three months ended March 31, 2016 was \$30.84 per barrel compared to an average price of \$47.75 per barrel for the same period in 2015. 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 production entitlement for the three months ended March 31, 2016 was 295 bbl/d representing a 7% increase when compared to production of 275 bbl/d for the same period in 2015. Natural gas daily production entitlement for the three months ended March 31, 2016 was 4,543 mcf/d representing a 5% decrease when compared to production of 4,800 mcf/d for the same period in 2015.

The Corporations share of Bahar Energy's oil equivalent daily production entitlement during the three months ended March 31, 2016 was 1,052 boe/d representing a 2% decline when compared to the production of 1,075 boe/d for the same period in 2015.

In comparison to revenue levels realized for same periods in 2015, the quarter-to-date decrease in petroleum revenues has been caused by the worldwide decline in oil prices in 2015; lower volumes due to the suspension of drilling operations in Gum Deniz oil field; BEOC's reduced ability to conduct planned workovers in the Bahar gas and Gum Deniz oil fields due to lack of access to equipment; and the failure of Baghlan and SOA to fund its share of the Bahar Project capital work programs.



## Net realization price for crude oil and natural gas <sup>(1)</sup>

	Three months ended	
	March 31,	
	2016	2015
\$/bbl		
Average crude oil sales price	\$30.84	47.75
Transportation fees	(0.34)	(0.87)
Marketing fees	(0.51)	(0.51)
Other costs <sup>(2)</sup>	-	(0.01)
Crude oil	\$29.99	46.36
\$/mcf		
Natural gas	\$3.96	\$3.96

<sup>(1)</sup> "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.

<sup>(2)</sup> Other costs consist of port storage, customs, banking fees and certification fees.

### Transportation and storage fees

For the three months ended March 31, 2016, Bahar Energy's transportation and storage revenues were \$nil (\$nil for the Corporation's 33.33% share) compared to \$0.8 million (\$0.3 million for the Corporation's 33.33% share) for the same period in 2015. The transportation and storage revenues have been based on a service fee arrangement to supply excess transportation, storage and processing capacity available at the Bahar facilities to another local producer. The service agreement with BEOC was terminated by the local producer after startup of its own facilities placed in service in May 2015. At March 31, 2016 AOC had outstanding obligations due BEOC in the amount of \$1.6 million (\$1.3 million net to Bahar Energy and \$0.4 million for the Corporation's share). BEOC has continued efforts to collect these past due amounts and is currently considering arbitration. For the year ended December 31, 2015 Bahar Energy had recorded a provision for doubtful accounts for the full receivable amount of \$1.3 million (\$0.4 million for the Corporation's share).

### Operating and administrative expenses

For the three months ended March 31, 2016, Bahar Energy's share of BEOC operating and administrative expenses was \$4.8 million (\$1.6 million for the Corporation's 33.33% share) compared to \$6.3 million (\$2.1 million for the Corporation's 33.33% share) for the same period in 2015. The Bahar Project has seen cost savings in areas such as; (i) staffing, as the organization is further streamlined, (ii) lower insurance costs, as the organization maintains a low incident safety record, and (iii) reduced third party services costs, as some of the fixed monthly service contracts have been eliminated and the internal workforce has been trained to perform these services. Operating materials and supplies purchases have been reduced by utilizing existing inventories and maintaining lower levels of stock on hand. The project has also seen a significant cost savings from devaluations of the Manat to US dollar of 35% on February 2015 and 47% on December 2015, which impacted local employment costs, services and procurement.

## RESULTS OF OPERATIONS FOR GREENFIELDS PETROLEUM CORPORATION

### Revenues

<i>(US\$000's)</i>	Three months ended March 31,	
	2016	2015
Management service fees	334	337

### Management and service fees

For the three months ended March 31, 2016, the Corporation recorded service fee revenue of \$0.3 million and \$0.3 million for the same period in 2015. The fees are primarily associated with technical services provided at cost by the Corporation to BEOC under Master Service and Personnel Secondment Agreements, as well as direct legal, finance and commercial assistance provided to Bahar Energy.

### Administrative expenses

<i>(US\$000's)</i>	Three months ended March 31,	
	2016	2015
Employee wages and benefits	475	542
Professional service costs	423	249
Office, travel and other	143	277
	1,041	1,068
Share-based payment expense	9	116
Total gross administrative	1,050	1,184
Services fees billed to affiliates	(334)	(337)
Administrative expenses net of services fees	716	847

Administrative expenses for the three months ended March 31, 2016 were \$1.0 million (March 31, 2015 - \$1.1 million). The decrease in administrative expenses in 2016 versus same period in 2015 is mainly attributed to lower employee wages and benefits as the Corporation reduced personnel and bonuses; and the elimination of technical assistance provided by third parties once the contracted work was completed. The increase in Professional service costs in 2016 versus same period in 2015 is attributed to higher legal expenses in connection with the Acquisition and Restructuring Transactions.

For the three months ended March 31, 2016, net administrative expenses were \$0.7 million (March 31, 2015 - \$0.8 million).

## Share-based payments

(US\$000's)	Three Months Ended March 31,	
	2016	2015
Share options	14	49
Share awards	-	80
Total share settled	14	129
Contingent share-based bonus	(5)	-
Restricted cash bonus – cash settled	-	(13)
Total Share-based payments	9	116

The Share-based payments recorded by the Corporation are associated with share options, restricted share grants and share-based bonuses. Share-based payment expenses for the three months ended March 31, 2016 were \$9 thousand (March 31, 2015 - \$116 thousand). The decrease in Share-based expenses in 2016 versus same period in 2015 is mainly attributed to a reduced amortization of share options as the estimated compensation expense from previous grants are fully amortized; and the lower price per common share used in estimating compensation expense for cash settled bonus and new options awards.

### 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.

For the three months ended March 31, 2016, the Corporation recorded share options expense of \$14 thousand (March 31, 2015 - \$49 thousand). The share options expense is offset to the Corporation's share-based payment reserve.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD\$)	Number Exercisable
Aug. 31, 2010	15,000	Aug. 31, 2020	4.4	6.50	15,000
Oct. 11, 2013	563,333	Oct. 11, 2018	2.5	3.20	383,333
Oct. 25, 2013	40,000	Oct. 25, 2018	2.6	3.00	20,000
Nov. 7, 2013	50,000	Nov. 7, 2018	2.6	2.90	25,000
July 8, 2014	115,000	July 8, 2019	3.3	3.25	57,500
July 8, 2015	400,000	Oct. 8, 2016	0.5	0.35	252,500
	1,183,333				753,333

As at March 31, 2016, the Corporation has a total of 1,183,333 share options outstanding, 753,333 of which are exercisable with remaining contractual lives ranging from 0.5 to 4.4 years. The average exercise price of exercisable share options is CAD\$2.30.

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

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.

A total of 410,000 shares were awarded upon the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar. These shares vest 50% on each July 1, 2014 and 2015. For the three months ended March 31, 2016 the Corporation recorded share-based payment expense of \$nil (March 31, 2015 - \$80 thousand) in relation to the issuance of 410,000 shares at the price of CAD\$3.00 per common share.

On February 14, 2015 the Corporation completed the grant of 6,000 common shares to an officer of the Corporation upon the implementation of recommendations resulting from the downhole study for Bahar. The shares vested at grant date and were valued at the price of CAD\$0.89 (USD\$0.72) for a total share-based payment of \$4 thousand.

For the three months ended March 31, 2016, the Corporation has recorded total share-based payment expense for restricted share awards of \$nil (March 31, 2015 - \$80 thousand). Expenses associated with restricted share awards are recorded with an offset to share capital of the Corporation.

On January 12, 2015 the Corporation awarded the right to 500,490 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Corporation; or such earlier vesting date as determined by the board. Also at the option of the board, the contingent bonus may be settled by the Corporation in cash at vesting date, with the value of common share determined by the closing price of the Corporation's common shares at such vesting date. These rights have been valued at the price of CAD\$0.28 (USD\$0.21) for a total share award expense of \$103 thousand and accrued as contingent liabilities at December 31, 2015. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss.

The estimated liability for the contingent bonus at March 31, 2016 was \$98 thousand (December 31, 2015 - \$103 thousand).

## 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 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, 2016 was \$183 thousand (December 31, 2015 - \$184 thousand).

On January 20, 2015 the Corporation awarded 107,866 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 94,533 units vesting on January 1, 2015 (the "**Original Vesting Date**"). The deferral bonus units originally had a vesting date of January 1, 2016

(the “**Deferral Vesting Date**”) and would be settled at the share price of the Corporation’s common share on either the Original Vesting Date or the Deferral Vesting Date, whichever share price was higher. The Deferral vesting date for both awards has been further deferred until the first to occur of the following: January 1, 2017; the date of a change of control of the Corporation; or such earlier vesting date as determined by the board.

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, 2016 was \$nil (December 31, 2015 - \$nil).

The following table summarizes the terms of outstanding units awarded under the Restricted Cash Bonus Program:

Grant Date	FVBCB Units	ABCB Units	ABCB Units			
			Grant Price \$CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	38,334	122,500	4.80	122,500	June 4, 2017	1.2
Sept. 4, 2012	3,333	10,000	5.65	10,000	Sept. 4, 2017	1.4
Oct. 5, 2012	6,667	30,000	5.30	30,000	Oct. 5, 2017	1.5
Dec. 1, 2012	1,200	3,600	4.80	3,600	Dec. 1, 2017	1.7
Dec. 24, 2012	90,000	160,000	3.50	160,000	Dec. 24, 2018	2.7
Jan.1, 2015	107,866	-	-	-	-	-
	247,400	326,100		326,100		

For the three months ended March 31, 2016, the Corporation recorded restricted cash bonus expense of \$nil (March 31, 2015 – (\$13) thousand).

### Interest income and interest expense

(US\$000's)	Three Months Ended March 31,	
	2016	2015
Interest income <sup>(1)</sup>	733	726
Interest expense – short term loan <sup>(2)</sup>	(1,317)	(1,585)
Interest expense – convertible debentures <sup>(3)</sup>	(761)	(717)
Interest expense – long term loan	(623)	(616)
	(1,968)	(2,192)

<sup>(1)</sup> Interest income charged to Bahar Energy in connection with Default Loans. Includes transaction costs of \$10 thousand for the three months ended March 31, 2016 (March 31, 2015 - \$60 thousand).

<sup>(2)</sup> Interest expense on short term loan includes interest and amortization of transaction costs.

<sup>(3)</sup> Interest expense on convertible debentures includes accretion; coupon interest; amortization of transaction costs; and interest on defaulted payments.

## **Change in fair value of derivative liability**

For the three months ended March 31, 2016, the Corporation recorded gains of \$nil (March 31, 2015 - gain of \$20 thousand). The changes result from the fair value measurement of the derivative liability associated with the debentures convertible option.

## **CASH FLOW ANALYSIS**

The balance of Corporation's cash and cash equivalents at March 31, 2016 was \$906 thousand, an increase of \$806 thousand when compared to the balance of \$100 thousand at December 31, 2015. For the three months ended March 31, 2016, the Corporation's primary source of funds has come from operations and \$7.0 million in proceeds from an additional advance in March 4, 2016 provided by the Lenders under the Fifth Amending Agreement to the November 25, 2013 Loan Agreement.

Cash and cash equivalents were primarily used to fund corporate expenses and working capital. The amount of \$6.0 million advanced under the Fifth Amending Agreement is maintained in an escrow account pending the settlement of purchase price obligations in respect of the Acquisition.

## **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 1,183,333 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](http://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 are governed by the Bahar Gas Sales Agreement which maintains a fixed pricing structure of \$140 per cubic meter of gas or the equivalent of \$3.96 per mcf.

Recent gas negotiations by SOCAR 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 funding in the time required by the project 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.

## **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. However, the Corporation's cash balance at March 31, 2016 is not sufficient to meet existing obligations, therefore requiring a restructuring of its debt.

The Corporation's existing financial liabilities for the three months ended March 31, 2016 arose primarily from corporate obligations related to its participation in the Bahar Energy joint venture. 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 2016 Work Plan and Budget ("**WP&B**") for ERDPSA reflects a positive cash flow generated for the Bahar Project. Based on this estimate, the Corporation has not made additional loan commitments for the year.

The Corporation has raised additional funds to complete the Acquisition of remaining 66.67% interest in Bahar Energy and initiate a restructuring of the Corporation's debt obligations. The Corporation will also continue to seek funding sources to provide working capital for the Bahar Project and corporate purposes. After completing the Acquisition and Restructuring Transaction, which will consolidate a higher share of reserves resources and significantly reduce debt obligations, the Corporation will seek reserves based borrowing opportunities to replace its remaining senior debt with a lower financing cost facility and to provide continued funding for the Bahar Project. Should market conditions improve, the Corporation will also evaluate the potential for equity placement to replace some or all of its debt obligations. Contemporaneous with the completion of the Restructuring Transaction, the Corporation anticipates an agreement will be signed extending its senior debt maturity date under the Loan Agreement to December 31, 2017. Both the Acquisition and Restructuring Transaction remain subject to approval in their entirety by the TSXV.

However, there are no assurances the Corporation will be successful in completing the Acquisition and Restructuring Transaction and raising additional capital through debt financing or issuance of equity on

favorable terms. Without access to additional funding in 2016 and beyond and the facts disclosed above, there is significant doubt that the Company will be able to continue as a going concern.

The Bahar Project 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, 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 weather in the Caspian Sea and the availability of suitable offshore installation equipment could cause delays in operations therefore reducing the Bahar Project's ability to realize estimated earnings and cash flows.

The Bahar Project long-term cash flows are highly dependent on the 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. The Corporation may not be able to find, develop or acquire additional reserves to replace current and future production at acceptable costs, which could materially affect future liquidity.

### Capital Structure

<i>(US\$000's)</i>	March 31, 2016	December 31, 2015
Working capital <sup>(1)</sup>	(14,345)	(6,478)
Long term loan, convertible debt and shareholders' equity	53,990	55,600
Ratios of working capital to long term loan, convertible debt and shareholders' equity <sup>(2)</sup>	(27%)	(12%)

(1) Working capital, as 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, 2016.

### Related party transactions

A detailed discussion of related party transactions is included in Notes 4 and 5 to the Corporation's Unaudited Condensed Consolidated Statements of Financial Position for the three months March 31, 2016.

## Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of March 31, 2016:

<i>(US\$000's)</i>	<b>2016</b>	<b>2017</b>	<b>Thereafter</b>
Operating leases <sup>(1)</sup>	35	47	-
Short term loan – interest payments <sup>(2)</sup>	5,484	-	-
Short term loan <sup>(2)</sup>	34,000	-	-
Long term loan – interest <sup>(3)</sup>	-	-	9,681
Long term loan <sup>(3)</sup>	-	-	20,835
Debentures – interest payments <sup>(4)</sup>	3,379	823	-
Debentures <sup>(4)</sup>	-	18,291	-
	<b>42,898</b>	<b>19,161</b>	<b>30,516</b>

<sup>(1)</sup> The Corporation has extended its lease of office space for its corporate headquarters in the United States through December 2017.

<sup>(2)</sup> Represents principal and accrued interest on \$34 million short term loan as at May 16, 2016. The Corporation signed the Fifth Amending Agreement to extend the maturity of the Loan until May 16, 2016. Subsequent to May 16, 2016 the Loan has been extended until June 30, 2016. See *Subsequent Events*.

<sup>(3)</sup> Represents principal and accrued interest on long term loan with maturity date of June 30, 2018.

<sup>(4)</sup> The Debentures mature on May 31, 2017. The Corporation has the option to settle the Debentures by issuing common shares. Principal and coupon interest payments are denominated in Canadian Dollars. The USD value of the principal and scheduled interest payments has been calculated at the March 31, 2016 exchange rate of 1.2971 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 2016 Work Plan and Budget for ERDPSA reflects a positive cash flow generated for the Bahar Project. Based on this estimate, the Corporation has not made additional loan commitments for the year.

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.

In June 2014 Baghlan was declared in default with Greenfields subsequently funding Baghlan's shareholder loan obligations to Bahar Energy. As a result of the default, Baghlan lost voting rights on the Bahar Energy board resulting in Greenfields assuming full control of Bahar Energy until such time the funding deficiency is resolved.



## Financial instruments

A summary of the Corporation's financial instruments is included in Note 17 to the Corporation's Unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2016.

## SUBSEQUENT EVENTS

### Settlement of Subordinated Debt

On April 12, 2016 the Corporation entered into a definitive agreement ("**Definitive Agreement**") with Heaney Assets Corporation ("**Heaney**") to settle all amounts outstanding under the Subordinated Revolving Loan Agreement dated June 27, 2014, with an original maturity date of June 30, 2018. Under the terms of the Definitive Agreement, Greenfields will issue 11,500,000 common shares of the Corporation to Heaney in full satisfaction of all amounts outstanding under the loan agreement, including principal in the amount of \$20,834,705 and accrued interest. Greenfields will also pay an agent a success fee for negotiating the terms of the Definitive Agreement which comprises a cash payment of \$1,000,000 and the issuance of 500,000 common shares of the Corporation upon the successful closing of the transactions contemplated by the Definitive Agreement.

### Maturity Date on Senior Debt Extended

On May 16, 2016 the Corporation signed a Sixth Amending Agreement that extends the maturity date under the loan agreement dated November 25, 2013 with its senior lender until June 30, 2016. The sixth extension is intended to allow additional time for the Corporation's wholly owned subsidiary, Greenfields Petroleum International Company Ltd., to complete the acquisition of the balance of the Bahar Energy Limited shares not currently owned by GPIC, to implement the Debenture Conversion and to complete the restructuring of the loan principal amount of \$34 million plus accrued and unpaid interest. Interest will continue to accrue on the principal of the loan at rates ranging from 15% to 20%. Unpaid interest shall bear interest at a rate of 17.04% until the maturity date.

## ABBREVIATIONS

<u>Abbreviation</u>	<u>Description</u>
bbbl	Barrels
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbbl/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