



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2013

(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 and nine months ended September 30, 2013 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2012. 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 November 26, 2013.

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. As at January 1, 2013, the Corporation adopted certain new IFRS standards that were implemented retrospectively, accordingly the financial information for periods within the year 2012 has been restated to be in accordance with the new IFRS standards that were adopted on January 1, 2013. Please refer to Note 3 - *Change in Accounting Policies* in the condensed consolidated financial statements.

***Effective January 1, 2013 the Corporation has adopted IFRS 11 "Joint Arrangements", in relation to reporting its joint venture activities. Under IFRS 11, the Corporation is required to report its joint venture assets, liabilities and financial activities using the equity method of accounting. However, for purposes of analysis in this MD&A, the proportionate share of assets, liabilities and financial activities is included as non-standard GAAP information where appropriate.***

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

### Third Quarter and Year-to-Date 2013 Financial Results and Operating Highlights <sup>(1)</sup>

- The Corporation’s entitlement sales volumes from production for its net interest in the Bahar Project averaged 573 bbl/d and 6,334 mcf/d or 1,628 boe/d in the third quarter and 524 bbl/d and 4,807 mcf/d or 1,325 boe/d year-to-date.
- Through its interest in Bahar Energy, the Corporation realized average netback oil prices of \$104.20/bbl for the quarter and \$101.01/bbl year-to-date. Realized gas prices have remained constant during 2013 at \$3.96/mcf.
- Development drilling continued with the drilling of the Gum Deniz 714 well which was spudded on August 2, 2013 and reached total depth in 59 days, 30 days ahead of schedule and \$3.0 million lower in cost compared to the prior Gum Deniz 716 well. Production casing was run and the well prepared for testing and completion at the end of the quarter.
- The PSG-3 drilling rig was in the process of being rigged up for drilling on Platform 208 as the Bahar Project’s second development drilling rig.
- The Corporation recorded a net loss of \$58 thousand and EPS of (\$0.00) for the third quarter and a net loss of \$3.3 million and EPS of (\$0.21) year-to-date.

### Operating Highlights and Plans <sup>(1)</sup>

- Gross field production for the third quarter averaged 2,017 bbl/d for oil and 22,052 mcf/d for natural gas or approximately 5,984 boe/d, an increase of 23% over second quarter production. This increase was due to successful workovers and recompletions along with oil production from the new Gum Deniz 716 well.
- With additional oil and gas workovers scheduled and increased production from new well drilling in the Gum Deniz Field, Bahar Energy anticipates reaching the contractual production target of 6,944 boe/d (“**TPR1**”) by the end of the fourth quarter 2013. The Bahar Project is currently producing approximately 7,731 boe/d and over the last 43 days has averaged production rates of 6,949 boe/d, or the equivalent to 48% towards the 90 days TPR1 production target.

- The Gum Deniz 714 well that commenced drilling August 2, 2013 reached total depth of 3,005 meters on September 24, 2013. The well was logged with total net pay of 220 meters. After running production casing the well was prepared for testing and completion. After initial testing of the SP formation, the well is scheduled for completion in the X formation in November 2013.
- Rigging up the PSG-3 rig continues on Platform 208 with delays due to weather and some required structural reinforcement work on the platform which was identified during rig mobilization. The additional platform work has likely delayed the commencement of drilling operations until January 2014.
- Bahar Energy tendered and awarded a contract for a 200 square kilometer 3D seismic survey to cover the Gum Deniz Field area to PGS-Khazar earlier this year. The Contractor has completed the mobilization of vessels and equipment, which were delayed due to customs issues and bad weather in the north Caspian. The customs issues were resolved and PGS-Khazar personnel, two cable laying vessels, recording vessel, seismic shooting vessel, and support vessel have arrived in Baku and begun work. Cables are being laid with the acquisition to begin in November 2013. The program is expected to take approximately 6 months after which the data will be processed for interpretation and integration with the well control for future development well selection.
- Under the ERDPSA, the initial term of the Bahar-2 exploration area was for a period of three years commencing on October 1, 2010, which expired on September 30, 2013. At the end of the exploration period SOCAR, at its sole discretion, may terminate this agreement with respect to the exploration area. At this time SOCAR has not exercised its right to terminate the agreement and has indicated it would consider an extension request should Bahar Energy propose the drilling of an exploration well based on the new interpretation over the Bahar-2 area on recently acquired 3D seismic.
- The review and interpretation of the 3D seismic survey over the Bahar-2 exploration area, located immediately south of the Bahar Gas Field in the ERDPSA area, is being finalized. A Vertical Seismic Profile was acquired in the Bahar 164 well to aid in the calibration of the 3D seismic data to the well control and evaluate a number of anomalous amplitudes seen on the new data. The integration of this data is in progress. If the interpretation demonstrates an attractive exploration prospect or prospects, Bahar Energy will develop an appropriate exploration drilling strategy to evaluate the commerciality of the prospects and propose to SOCAR for approval and extension of the exploration area.

(1) Gross field production target of 1.5 times the 2008 average daily production equal to 6,944 boe/d refers to the production level required to be maintained for 90 consecutive days to earn the full 25 year term of the ERDPSA, also referred to as **TPR1**. Gross field production measured against TPR1 use a 5.559 mcf to 1 boe conversion factor to convert natural gas to a barrel oil equivalent (boe). All gross field production disclosed in "Operating Highlights and Plans" use this conversion factor for comparison against the 6,944 boe/d contractual production milestone. All entitlement natural gas sales volumes included in boe/d calculations disclosed for Bahar Energy Limited or the Corporation's net share of the Bahar Project use a 6 mcf to 1 boe to calculate total boe/d volumes, as is standard for financial reporting and reserves based disclosures.

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## SELECTED QUARTERLY INFORMATION

### Greenfields Petroleum Corporation

(US\$000's, except as noted)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012 <sup>(5)</sup>	2013	2012 <sup>(5)</sup>
<b>Financial</b>				
Revenues <sup>(2)</sup>	575	733	1,946	1,907
Net loss	(58)	(482)	(3,344)	(10,141)
Per share, basic and diluted	(\$0.00)	(\$0.03)	(\$0.21)	(\$0.66)
<b>Capital Items</b>				
Cash and cash equivalents			3,986	19,720
Total Assets			44,477	49,832
Working capital <sup>(3)</sup>			3,525	23,445
Convertible debt and Shareholders' equity <sup>(4)</sup>			42,244	46,974

### Bahar Energy (Joint Venture)

(US\$000's, except as noted)

	Total Joint Venture		Corporation's share	
	Three months ended September 30,			
	2013	2012	2013	2012
<b>Financial</b>				
Revenues	24,671	18,671	8,223	6,223
Net income	4,734	5,518	1,578	1,839
<b>Operating</b>				
Average Entitlement Sales Volumes <sup>(1)</sup>				
Oil and condensate (bbl/d)	1,718	1,368	573	456
Natural gas (mcf/d)	19,005	12,646	6,334	4,215
Barrel oil equivalent (boe/d)	4,886	3,477	1,628	1,159
Average Oil Price				
Oil price (\$/bbl)	\$106.39	\$103.51	\$106.39	\$103.51
Net realization price (\$/bbl)	\$104.20	\$101.63	\$104.20	\$101.63
Brent oil price (\$/bbl)	\$110.23	\$109.61	\$110.23	\$109.61
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
<b>Capital Items</b>				
Total Assets	165,362	93,957	55,115	31,316
Total Liabilities	50,456	25,499	16,817	8,499
Net Assets	114,906	68,458	38,298	22,817

<sup>(1)</sup> Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of 5% compensatory petroleum and the government's share of profit petroleum.

<sup>(2)</sup> Revenues for the three and nine months ended September 30, 2013 and 2012 reflect change from proportionate consolidation to equity method of accounting for the Corporation's investment in Bahar Energy Limited. 2012 financial results have been restated to reflect the change in accounting policy effective January 1, 2013.

<sup>(3)</sup> The September 30, 2012 working capital balance has been restated to exclude the Corporation's share of Bahar Energy Limited working capital due to the change to equity method accounting noted above.

<sup>(4)</sup> Convertible debt is combined with shareholders' equity at September 30, 2013 due to the Corporation's right to settle this debt by issuing shares.

<sup>(5)</sup> These figures were restated to comply with the adoption of IFRS impacting the accounting for the joint venture. See Note 3 of the Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2013.

## Bahar Energy (Joint Venture)

<i>(US\$000's, except as noted)</i>	Total Joint Venture		Corporation's share	
	Nine months ended September 30,			
	2013	2012	2013	2012
<b>Financial</b>				
Revenues	63,417	52,121	21,137	17,372
Net income (loss)	1,833	(6,139)	611	(2,046)
<b>Operating</b>				
Average Entitlement Sales Volumes <sup>(1)</sup>				
Oil and condensate (bbl/d)	1,572	1,233	524	411
Natural gas (mcf/d)	14,423	11,995	4,807	3,998
Barrel oil equivalent (boe/d)	3,976	3,231	1,325	1,077
Average Oil Price				
Oil price (\$/bbl)	\$103.09	\$104.08	\$103.09	\$104.08
Net realization price (\$/bbl)	\$101.01	\$102.06	\$101.01	\$102.06
Brent oil price (\$/bbl)	\$108.28	\$112.17	\$108.28	\$112.17
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
<b>Capital Items</b>				
Total Assets	165,362	93,957	55,115	31,316
Total Liabilities	50,456	25,499	16,817	8,499
Net Assets	114,906	68,458	38,298	22,817

<sup>(1)</sup> Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of 5% compensatory petroleum and the government's share of profit petroleum.

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## SUMMARY OF QUARTERLY RESULTS

<i>(US\$000's, except as noted)</i>	GREENFIELDS PETROLEUM CORPORATION							
	2013			2012 <sup>(5)</sup>				2011 <sup>(5)</sup>
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Financial</b>								
<b>Revenues <sup>(2)</sup></b>								
Management service fees	575	684	687	830	733	512	662	666
	575	684	687	830	733	512	662	666
Net income (loss)	(58)	517	(3,803)	(5,934)	(482)	(5,155)	(4,504)	(22,584)
Per share, basic and diluted	(\$0.00)	\$0.03	(\$0.24)	(\$0.38)	(\$0.03)	(\$0.34)	(\$0.30)	(\$1.52)
<b>Capital Items</b>								
Cash and cash equivalents	3,986	6,721	2,837	12,404	19,720	24,288	12,913	23,985
Total Assets	44,477	41,973	36,458	40,560	49,831	48,782	29,858	31,340
Working capital <sup>(3)</sup>	3,525	7,716	3,316	16,622	23,446	27,467	16,696	27,594
Convertible debt and shareholders' equity <sup>(4)</sup>	42,244	39,704	34,009	38,327	46,974	46,338	27,519	28,481

<i>(US\$000's, except as noted)</i>	CORPORATION'S SHARE OF BAHAR ENERGY (JOINT VENTURE)							
<b>Financial</b>								
<b>Revenues</b>								
Petroleum and natural gas	7,827	6,605	5,507	6,132	5,815	5,396	4,791	5,023
Transportation & storage fees	396	393	409	457	408	418	544	431
	8,223	6,998	5,916	6,589	6,223	5,814	5,335	5,454
Net income (loss)	1,578	1,090	(2,057)	(5,590)	1,839	(1,250)	(2,635)	(12,591)
<b>Operating</b>								
<b>Average Entitlement Sales Volumes <sup>(1)</sup></b>								
Oil and condensate (bbl/d)	573	556	443	487	456	442	335	360
Natural gas (mcf/d)	6,334	4,645	3,405	3,928	4,215	3,880	3,899	4,276
Barrel oil equivalent (boe/d)	1,628	1,330	1,011	1,141	1,159	1,089	985	1,072
<b>Prices</b>								
Average oil price (\$/bbl)	\$106.39	\$97.52	\$105.80	\$105.02	\$103.51	\$99.40	\$111.01	\$104.71
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	55,115	46,396	37,850	33,346	31,316	25,456	17,526	14,346
Total Liabilities	16,817	13,381	10,833	11,637	8,498	6,385	6,324	5,002
Net Assets	38,298	33,015	27,017	21,709	22,818	19,071	11,202	9,344

<sup>(1)</sup> Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of 5% compensatory petroleum and the government's share of profit petroleum.

<sup>(2)</sup> Revenues for the three and nine months ended September 30, 2013 and 2012 reflect change from proportionate consolidation to equity method of accounting for the Corporation's investment in Bahar Energy Limited. 2012 financial results have been restated to reflect the change in accounting policy effective January 1, 2013.

<sup>(3)</sup> The September 30, 2012 working capital balance has been restated to exclude the Corporation's share of Bahar Energy Limited working capital due to the change to equity method accounting noted above.

<sup>(4)</sup> Convertible debt is combined with shareholders' equity at September 30, 2013 due to the Corporation's right to settle this debt by issuing shares.

<sup>(5)</sup> These figures were restated to comply with the adoption of IFRS impacting the accounting for the joint venture. See Note 3 of the Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2013.

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

<b>Revenues</b> (US\$000's)	Total Joint Venture		Corporation's share	
	Three months ended September 30,			
	2013	2012	2013	2012
Petroleum	16,633	12,888	5,544	4,296
Natural gas	6,850	4,559	2,283	1,519
<b>Total petroleum and natural gas</b>	<b>23,483</b>	<b>17,447</b>	<b>7,827</b>	<b>5,815</b>
Transportation and storage fees	1,188	1,224	396	408
<b>Total revenue</b>	<b>24,671</b>	<b>18,671</b>	<b>8,223</b>	<b>6,223</b>

<b>Revenues</b> (US\$ 000's)	Total Joint Venture		Corporation's share	
	Nine months ended September 30,			
	2013	2012	2013	2012
Petroleum	44,230	35,041	14,742	11,679
Natural gas	15,593	12,970	5,197	4,323
<b>Total petroleum and natural gas</b>	<b>59,823</b>	<b>48,011</b>	<b>19,939</b>	<b>16,002</b>
Transportation and storage fees	3,594	4,110	1,198	1,370
<b>Total revenues</b>	<b>63,417</b>	<b>52,121</b>	<b>21,137</b>	<b>17,372</b>

The Corporation's share of Bahar Energy petroleum revenues for the three and nine months ended September 30, 2013 was \$5.5 million and \$14.7 million, respectively, compared to \$4.3 million and \$11.7 million, respectively, for the same periods in 2012. Natural gas revenues for the three and nine months ended September 30, 2013 were \$2.3 million and \$5.2 million, respectively, compared to \$1.5 million and \$4.3 million, respectively, for the same periods in 2012. 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 prices received for crude oil during the three and nine months ended September 30, 2013 were \$106.39 and \$103.09 per barrel, respectively, compared to average prices of \$103.51 and \$104.08, respectively, for the same periods in 2012. The price for natural gas remained contractually constant at approximately \$3.96 per thousand cubic feet.

The Corporation's share of Bahar Energy crude oil daily entitlement production for the three and nine months ended September 30, 2013 was 573 bbl/d and 524 bbl/d, respectively, a 26% increase for the quarter and a 27% increase year to date when compared to production of 456 bbl/d and 411 bbl/d, respectively, for the same periods in 2012. Natural gas daily entitlement production for the three and nine months ended September 30, 2013 was 6,334 mcf/d and 4,807 mcf/d, a 50% increase for the quarter and a 20% increase year to date when compared to production of 4,215 mcf/d and 3,998 mcf/d, respectively, for the same periods in 2012. The year to date increase in oil production is primarily the result of production from the new GD 715 and GD 716 wells along with successful workovers and recompletions. The year to date increase in gas production is primarily the result of recompletions on wells 196, 208, 209 and 238.

In terms of oil equivalent daily production, during the three and nine months ended September 30, 2013, the Corporation's share of Bahar Energy production was 1,628 boe/d and 1,325 boe/d, respectively, which represented a 40% increase for the quarter and a 23% increase year to date when compared to the production of 1,159 boe/d and 1,077 boe/d, respectively, for the same periods in 2012.



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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
\$/bbl				
Average crude oil sales price	\$106.39	\$103.51	\$103.09	\$104.08
Transportation fees	(\$1.09)	(\$0.81)	(\$1.05)	(\$0.96)
Marketing fees	(\$1.09)	(\$1.06)	(\$1.02)	(\$1.05)
Other costs <sup>(2)</sup>	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Crude oil	\$104.20	\$101.63	\$101.01	\$102.06
\$/mcf				
Natural gas	\$3.96	\$3.96	\$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 and nine months ended September 30, 2013, Bahar Energy's transportation and storage revenues were \$1.2 million and \$3.6 million, respectively, (\$0.4 million and \$1.2 million, respectively, for the Corporation's 33.33% share) compared to \$1.2 million and \$4.1 million, respectively, (\$0.4 million and \$1.4 million, respectively, for the Corporation) for the same periods in 2012. The transportation and storage revenues are based on a fee arrangement to supply excess transportation and storage capacity available in the Bahar facilities to another local producer.

**Operating and administrative expenses**

For the three and nine months ended September 30, 2013, Bahar Energy's operating and administrative expenses were \$18.3 million and \$58.8 million, respectively, (\$6.1 million and \$19.6 million, respectively, for the Corporation's 33.33% share) compared to \$12.3 million and \$56.7 million (\$4.1 million and \$18.9 million, respectively, for the Corporation) for the same periods in 2012. The increased operating costs in the third quarter 2013 are primarily related to costs associated with a higher level of well workover and maintenance activities to increase daily production levels toward meeting required production milestones under the ERDPSA.

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## RESULTS OF OPERATIONS FOR GREENFIELDS PETROLEUM CORPORATION

### Revenues

(US\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Management service fees	575	733	1,946	1,907

### Management and service fees

For the three and nine months ended September 30, 2013, the Corporation recorded service fee revenue of \$0.6 million and \$1.9 million, respectively, and \$0.7 million and \$1.8 million for the same periods in 2012. The fees are in connection with administrative, technical and support assistance provided by the Corporation to BEOC under a Master Service Agreement (“MSA”) and personnel Secondment Agreements between the Corporation and BEOC.

### Administrative expenses

(US\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Cash expenses				
Employee wages and benefits	804	1,596	3,192	3,793
Professional service costs	276	481	1,138	2,121
Office, travel and other	260	531	1,279	1,770
Total cash expenses	1,340	2,608	5,609	7,684
Share-based payment expense	40	202	611	1,131
Total gross administrative	1,380	2,810	6,220	8,815
Services fees billed to affiliates	(553)	(688)	(1,878)	(1,772)
Administrative expenses net of services fees	827	2,122	4,342	7,043

Administrative expenses, excluding non-cash stock-based compensation, for the three and nine months ended September 30, 2013 were \$1.3 million and \$5.6 million, respectively, compared to \$2.6 million and \$7.7 million for the same periods in 2012. The decrease in professional service costs in 2013 is due to the reduction of engineering services and reimbursement by Bahar Energy of prior period reserve study costs. A majority of these costs in support of the Bahar project are recovered through billings, at cost to BEOC. See “Management and Service Fees” note above.

### Share-based payments

The share-based payments recorded by the Corporation are associated with share options, share awards and shareholder settled transactions. Share-based payment expenses for the three and nine months ended September 30, 2013 were \$40 thousand and \$611 thousand, respectively, compared to \$202 thousand and \$1.1 million, respectively, for the same periods in 2012.

### 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 common shares.

The exercise prices of the share options range from CAD\$6.00 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, the share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date.

For the three and nine months ended September 30, 2013, the Corporation recorded share options expense of \$25 thousand and \$75 thousand, respectively, compared to \$9 thousand and \$504 thousand, respectively, for the same periods in 2012. The share options expense is offset to the Corporation's share-based payment reserve.

The lower share options expense observed during 2013 when compared to same periods in 2012 are related to forfeitures and decreased amortization expense.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD\$)	Number Exercisable
Aug. 31, 2010	645,000	Aug. 31, 2020	6.85	6.50	645,000
Nov. 16, 2010	100,000	Nov. 16, 2020	7.13	8.50	75,000
March 14, 2011	30,000	Mar. 14, 2021	7.46	9.50	22,500
May 19, 2011	100,000	May 19, 2021	7.64	9.00	75,000
Feb. 1, 2012	80,000	Feb. 1, 2017	3.34	6.00	40,000
Jan. 31, 2012	150,000	Jan. 31, 2017	3.34	13.00	150,000
	1,105,000				1,007,500

As at September 30, 2013 the Corporation has a total of 1,105,000 share options outstanding of which 1,007,500 are exercisable with remaining contractual lives ranging from 3.3 to 7.6 years. The average exercise price of exercisable share options is CAD\$7.85.

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.

#### Share Awards

On May 17, 2013 the Corporation granted 15,000 common shares to an officer of the Corporation. The shares were valued at the closing price on the TSXV at May 17, 2013, that being CAD\$3.60. For the three and nine months ended September 30, 2013, the Corporation recorded share-based payments expense related to this award of \$nil and \$52 thousand, respectively, compared to \$15 thousand and \$84 thousand, respectively, for the same periods in 2012. The share-based payment expense is an offset to share capital of the Corporation.

#### Common shares issued in satisfaction of employee severance payments

On June 30, 2013 the Corporation issued an aggregate of 126,371 common shares in satisfaction of net severance payments. The deemed price per common share issued was CAD\$3.20, being the closing price of the common shares on the TSX Venture Exchange on June 28, 2013. For the three and nine months ended September 30, 2013, the Corporation recorded share-based payments expense related to this transaction of \$nil and \$385 thousand (September 30, 2012 - \$nil). This share-based payment expense is offset to share capital of the Corporation.

### Restricted Share Awards

On February 1, 2012 a 40,000 restricted share grant was awarded and shares issued by the Corporation to a new officer. The shares vested 25% at grant date and vest 25% on the anniversary date thereafter in 2013, 2014 and 2015. The shares were valued at CAD\$6.00, the closing price of the Corporation's share on January 31, 2012, with the 25% vested on grant date included in the Corporation's share-based payments expense for the quarter. The remaining value of the unvested restricted share grant is amortized over the individual vesting periods.

For the three and nine months ended September 30, 2013, the Corporation recorded share-based payments expense related to past and current share grants of \$15 thousand and \$48 thousand, respectively, compared to \$28 thousand and \$142 thousand, respectively, for the same periods in 2012. Expenses associated with restricted share awards are recorded with an offset to share capital of the Corporation.

### Shareholder Settled Transactions

Under IFRS, when a shareholder transfers its own shares in a manner that benefits the Corporation, the Corporation must give recognition for the value of that transfer over the period which the benefits are received. For the three and nine months ended September 30, 2013, the Corporation recorded \$nil and \$50 thousand, respectively, and \$150 thousand and \$400 thousand, respectively, for the same periods in 2012 in connection with share-based expenses for shareholder settled transactions. The shareholder settled transaction expense is offset to the Corporation's share-based payment reserve.

### 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 September 30, 2013 was \$0.4 million (December 31, 2012 - \$0.3 million).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each of January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at September 30, 2013 was \$0.2 million (December 31, 2012 - \$0.3 million).

Grant Date	FVBCB Units	ABCB Units	ABCB Units			
			Grant Price \$CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	83,334	145,000	4.80	72,500	June 4, 2017	3.8
Sept. 4, 2012	6,666	10,000	5.65	5,000	Sept. 4, 2017	3.9
Oct. 5, 2012	13,333	30,000	5.63	15,000	Oct. 5, 2017	4.0
Dec. 1, 2012	2,400	3,600	4.80	1,800	Dec. 1, 2017	4.2
Dec. 24, 2012	150,000	180,000	3.50	45,000	Dec. 24, 2017	4.2
	255,733	368,600		139,300		

For the three and nine months ended September 30, 2013, the Corporation recorded restricted cash bonus expense of \$16 thousand and \$186 thousand, respectively, compared to \$241 thousand and \$389 thousand, respectively, for the same periods in 2012. The lower restricted cash bonus expense recorded in 2013 reflects the impact of lower share price and FVBCB unit forfeitures.

#### Other income, dividends, interest income and interest expense

(US\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Income other	(4)	-	(4)	-
Dividend income	(5)	-	(16)	-
Interest income	-	(16)	(12)	(48)
Interest expense – convertible debentures	788	847	2,349	1,133
	779	831	2,317	1,085

For the three and nine months ended September 30, 2013, the Corporation recorded \$0.8 million and \$2.3 million as interest expense from convertible debentures compared to \$0.8 million and \$1.1 million, respectively, for the same periods in 2012. This expense includes the coupon interest, accretion and amortization of issue costs.

#### Change in fair value of derivative liability

For the three and nine months ended September 30, 2013, the Corporation recorded gains of \$0.3 million and \$2.0 million compared to a \$0.3 million gain and \$0.2 million loss, respectively, for the same periods in 2012. The changes result from the fair value measurement of the derivative liability associated with the debentures convertible option.

### EQUITY CAPITAL

Authorized capital structure of the Corporation is 49,900,000 common shares and 100,000 preferred shares, each at US dollars \$.001 par value. As of the date of this report, the Corporation had 19,019,423 common shares issued and outstanding, 1,825,000 share options outstanding and no preferred shares outstanding.

### RISK FACTORS

The following abbreviated "Risk Factors" reflect those risks and uncertainties specific to the Bahar project and are summarized from the more detailed Risk Factor assessment disclosed in the Corporation's Annual Information Form for the year ended December 31, 2012 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 capitalization. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition and its results of operations.

## **Additional Financing Requirements and Dilution of Investment**

It may take many years and substantial capital expenditures to pursue the exploration and development of the Corporation's existing opportunities, successfully or otherwise. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, rehabilitation and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's future revenues from its potential reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its potential reserves or to maintain its production. If the Corporation's cash flow is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms. The availability of equity or debt financing is affected by many factors, including world and regional economic conditions; the state of international relations; the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation; fluctuations in the world and regional price of oil and gas and in interest rates; the outlook for the oil and gas industry in general and in areas in which the Corporation has or intends to have operations; and competition for investment funds among alternative investment projects. The terms of any such equity financing may be dilutive to holders of Common Shares. Potential investors and lenders will be influenced by their evaluations of the Corporation and its projects, including their technical difficulty, and comparison with available alternative investment opportunities. If adequate funds are not available, the Corporation may be required to scale back or reduce its interest in certain projects. If additional financing is raised by the issuance of shares, control of the Corporation may change and existing shareholders may suffer dilution. In addition, the Corporation may make future property or corporate acquisitions or enter into other transactions involving the issuance of securities of the Corporation which may also be dilutive.

## **Commodity Prices**

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

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

In addition, 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.

## **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.

## **Conflicting Interests with Partners**

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

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

## **Expiration of Contract Terms**

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

Under the ERDPSA, Bahar Energy will have the obligation to achieve, not later than three (3) years from the date of SOCAR's approval of the "Rehabilitation and Production Program", an average daily rate of petroleum production from the contract rehabilitation area during ninety (90) consecutive days 150% of the average 2008 production rates. Meeting the 150% production rate will result in the realization of the full 25 year term of the agreement for the Contract Rehabilitation Area. If Bahar Energy fails to meet the

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

### **Internal Controls**

Effective internal controls over financial reporting are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. 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 be operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of fines and penalties any of which may materially adversely affect the Corporation's financial condition and results of operations.

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

## **Insurance**

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

## **Delays in Business Operations**

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

## **Third Party Credit Risk**

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

## **Governmental Regulation**

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

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

Development of the Corporation's properties requires the approval by applicable regulatory authorities of the plans of the Corporation with respect to the drilling and development of such properties. A failure to

obtain such approval on a timely basis or the imposition of material conditions by such authority in connection with the approval may materially affect the prospects of the Corporation.

### **Labor**

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

### **Future Financing**

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

### **Market Conditions**

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

### **Negative Operating Cash Flow**

The Corporation has had negative cash flow since inception and projects negative operating cash flow to continue for the near term into late 2014. The Corporation's failure to achieve profitability and positive operating cash flows could have a material adverse effect on the Corporation's business, financial condition, operating results, ability to access additional equity or third party financing.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity Risk**

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

The Corporation prepares annual and interim period capital expenditures budgets, which are monitored and updated as considered necessary to provide current cash flow estimates. To facilitate the capital

expenditure program, the Corporation may raise debt and capital through the issuance of debt or equity securities. Additional financing may be required to complete planned capital programs.

The Corporation's financial liabilities as at September 30, 2013 and December 31, 2012 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture.

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

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

Future liquidity will depend on the timing of the drilling and recompletion programs. As favorable product pricing and production results are realized, we will evaluate the available market for additional drilling rigs to accelerate the drilling program as contemplated in the development program and summarized in our NI Form 51-101 disclosures filed on April 30, 2013 and available on [www.sedar.com](http://www.sedar.com).

The Corporation's joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Corporation's investment in the joint venture is dependent upon the joint venture's ability to reach a contractually required production increase or average target production rate for the Bahar Project of 6,944 boe/d during a 90 days period (TPR1) and complete the development of properties, including related financing requirements. As at September 30, 2013 the Corporation's ability to continue as a going concern is dependent on management's ability to secure adequate financing, meet the contractual production rates and, ultimately, achieving long term profitable operations. 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. In addition, the failure to reach the contractual production rates would significantly impact the financial position of the Corporation.

Subsequent to September 30, 2013 the Corporation secured additional funding through a \$25 million loan facility with the proceeds primarily dedicated to finance the Corporation's ongoing development operations for the Bahar Project over the next 12 to 18 months. See *Subsequent Events*. The Bahar Project is currently producing approximately 7,731 boe/d and over the last 43 days has averaged production rates of 6,949 boe/d, or the equivalent to 48% towards the 90 days TPR1 production target. The Corporation's management expects the Bahar Project's production to reach the TPR1 production milestone by the end of 2013.

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## Capital structure

<i>(US\$000's)</i>	September 30, 2013	December 31, 2012
Working capital <sup>(1)</sup>	3,525	16,622
Convertible debt and shareholders' equity	42,244	38,327
Ratios of working capital to convertible debt and shareholders' equity <sup>(2)</sup>	8%	43%

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(1) Working capital as presented here consists of 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.

## Off-balance sheet arrangements

The Corporation does not have any special purpose entities, nor is it party to any transactions or arrangements that would be excluded from the Corporation's Unaudited Condensed Consolidated Statements of Financial Position.

## Related party transactions

A detailed discussion of related party transactions is included in Note 7 to the Unaudited Condensed Consolidated Financial Statements for the period ended September 30, 2013.

## Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of September 30, 2013:

<i>(US\$000's)</i>	<b>2013</b>	<b>2014</b>	<b>Thereafter</b>
Operating leases <sup>(1)</sup>	38	78	78
Debentures – interest payments <sup>(2)</sup>	1,038	2,076	5,190
	<b>1,076</b>	<b>2,154</b>	<b>5,268</b>

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

<sup>(2)</sup> The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the September 30, 2013 exchange rate of 1.0285 USD/CAD.

The commitments of the Corporation include a \$52.5 million loan commitment to Bahar Energy for the funding of the deficit cash flows associated with the 2013 Bahar Annual Work Program and Budget ("WP&B"), which is subject to change.

As part of the mid-year budget review, the 2013 Bahar Annual Work Program and Budget were revised downward for lower capital expenditures. Due to delays in the scheduled drilling and startup of the recording of the 3D seismic survey in the Gum Deniz field, the estimated capital program for 2013 has been reduced even further while at the same time current production rates and realized oil prices are higher than estimated. The impact of lower capital spending offset by higher than expected revenues has reduced the Corporation's estimate of deficit cash flows from the Bahar project for 2013 and its expected loan commitment to Bahar Energy from \$52.5 million to approximately \$25 million.

The Corporation's commitments to fund the Bahar project are based on the approved annual WP&B prepared by BEOC. Greenfields' management, through their participation at the project Steering Committee, Management Committee and Bahar Energy board of directors, provides significant input and technical guidance to the proposed annual work plan. Proposed budgets are reviewed and approved by the Management Committee (comprised of representatives from Bahar Energy and SOCAR), Bahar Energy board of directors and Greenfields board of directors. Budget approval by Bahar Energy must be unanimous. Failing unanimity on a work program and budget, the proposal capable of satisfying the minimum work and production obligations under the ERDPSA for the calendar year in question that receives the highest percentage vote is deemed approved. Greenfields' Chief Executive Officer currently serves as the Bahar Energy representative on the Management Committee for BEOC, which has the authority under the Joint Operating Agreement to exercise day to day supervision and direction of all matters pertaining to the Joint Operations.

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

and shareholder voting rights are restored.

## Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 16 to the Unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2013.

## SUBSEQUENT EVENTS

### Financing

On November 25, 2013 the Corporation secured funding through a \$25 million loan with an arm's length third party. The funds available under the loan are primarily to finance the Corporation's ongoing development operations in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field. Pursuant to the terms of the loan agreement between the Corporation, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors, and the lender, the Corporation is entitled to draw up to an aggregate of \$25 million in tranches based upon the achievement of certain milestone events. The amount drawn under the loan bears an interest rate of between 15% and 20% with a maturity date of December 31, 2015. The loan is subject to a 2.5% structuring fee.

In consideration of the loan, the Corporation has agreed to issue to the lender common shares of the Corporation as bonus shares. These bonus shares will be subject to resale restrictions expiring four months from the date of issuance. Based on the funds drawn by the Corporation upon closing of the loan, the Corporation has issued 524,476 bonus shares to the lender.

### Share Options Award

Subsequent to September 30, 2013 the Corporation granted share options to acquire up to 720,000 common shares 459,000 of which were granted to directors and officers of the Corporation. The options have a five years term and are exercisable at prices ranging from CAD\$2.90 to CAD\$3.20 per Common Share.

## 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
bbld	barrels of oil per day
boed	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