GREENFIELDS PETROLEUM CORPORATION

Management's Discussion and Analysis

For the year ended December 31, 2011

(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 audited consolidated financial statements and notes thereto for the years ended December 31, 2011 and 2010. Additional information relating to Greenfields is available on SEDAR at **www.sedar.com** and on the Corporation’s website at **www.greenfields-petroleum.com**. Unless stated otherwise, all references to monetary values are in the United States dollar. This document is dated April 30, 2012.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011, Greenfields adopted International Financial Reporting Standards (“**IFRS**”) for Canadian publicly accountable enterprises as required by the Accounting Standards Board of Canada. Prior to the adoption of IFRS, the Corporation followed Canadian Generally Accepted Accounting Principles (“**Canadian GAAP**”). The Corporation has reported its results in accordance with IFRS starting in the first quarter 2011, with comparative IFRS information for the 2010 fiscal year.

Note 3 of the Corporation’s audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010 outlines the Corporation’s IFRS accounting policies, Note 4 lists new accounting pronouncements that are not yet effective but may impact the Corporation in future periods and Note 27 provides details of the Corporation’s IFRS elections and reconciliations between Canadian GAAP and IFRS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding Greenfields set forth in this report includes forward looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect” and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that the Corporation believes may affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described elsewhere in this report.

Other sections of this report may include additional factors, which could adversely affect our business and financial performance. Moreover, the Corporation operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Corporation’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

The Corporation undertakes no obligation to update publicly or revise any forward-looking statements. Furthermore, the forward-looking statements contained in this report are made as of the date of this report, and the Corporation undertakes no obligation to update publicly or to revise any of the included forward-looking statements unless required by applicable securities laws, whether as a result of new information, future events or otherwise. The forward-looking statements in this report are expressly qualified by this cautionary statement.

CORPORATE OVERVIEW

On August 18, 2011 Greenfields completed a redomestication from the State of Delaware to the Cayman Islands. As a result of the redomestication, the trading symbol of Greenfields on the TSX Venture Exchange in Toronto was changed to “GNF” (previously, the trading symbol was “GNF.S”).

The Corporation was originally formed on November 28, 2007 as Greenfields Petroleum Inc., a corporation formed under the laws of the State of Texas. On April 4, 2008, the Corporation was converted pursuant to a Certificate of Conversion to Greenfields Petroleum, LLC, a limited liability company formed under the laws of the State of Texas. Pursuant to a resolution approved by the board of directors of Greenfields Petroleum, LLC, on January 8, 2010, the outstanding units were split on the basis of 1.5 new units for each existing unit. On February 19, 2010, pursuant to a Certificate of Conversion, Greenfields Petroleum, LLC was converted to a corporation formed under the laws of the State of Delaware and concurrently changed its name to Greenfields Petroleum Corporation.

BUSINESS OF THE CORPORATION AND OPERATIONS

The Corporation is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan (“**Azerbaijan**”). The board of directors and management of the Corporation are experienced in financing, developing and operating international oil and gas fields, and possess the requisite technical skills and business acumen to operate in diverse international environments. The Corporation plans to expand its oil and gas assets through further farm-ins and acquisitions of licenses focusing on previously discovered and under-developed international oil and gas fields.

The Corporation’s primary focus is Azerbaijan. On December 22, 2009, Bahar Energy Limited (“**Bahar Energy**”), a 33.33% joint venture of the Corporation, entered into an Exploration, Rehabilitation, Development and Production Sharing Agreement ("**ERDPSA**") with the State Oil Company of Azerbaijan ("**SOCAR**") and its affiliate SOCAR Oil Affiliate ("**SOA**") in respect of the offshore block known as the Bahar Development Project, which consists of the Bahar gas field, the Gum Deniz oil field and the Bahar Exploration area. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the “**Contractor Parties**”).

Annual and Fourth quarter 2011 operating highlights

- The Corporation’s entitlement sales volumes from production for its net interest in the Bahar ERDPSA averaged 360 bbl/d and 4,276 mcf/d or 1,072 boe/d in the quarter and 397 bbl/d and 4,121 mcf/d or 1,084 boe/d for the year.
- Through its interest in Bahar Energy, the Corporation realized average oil and gas prices of $104.71 per barrel and $3.96 per mcf in the quarter and $103.53 per barrel and $3.96 per mcf for the year.
- 4 limited recompletions undertaken in 2011 of which 3 were successful and added initial 375 bbl/d of new production.

Activity highlights and plans

- Weather in the south Caspian area during the winter of 2011-2012 was, according to local reports, the worst in more than 100 years. Snow, ice and wind caused temporary production declines. Workover activity, field maintenance and seismic data acquisition programs were suspended due to the difficult weather conditions.

- During the next twelve months Bahar Energy will continue work related to construction and upgrades of facilities. Areas of focus include platform design and construction, oil and gas processing facility upgrades, pipeline replacement, water disposal, electric power line installation, support infrastructure and safety monitoring. As of this date, the topsides on Platform 2 and 196 have been removed. Pile caps have been fabricated and delivered to site. Once they are installed, these platforms will be ready for rig mobilization. A design concept for new platform construction was completed and is pending soil bore analysis for pile and jacket design. Two 14,600 bbl oil storage tanks were contracted for construction. One is nearing completion and the other is about 60% complete.

- During 2012 Bahar Energy expects to drill at least 6 wells in the Gum Deniz field and to recomplete approximately 16 wells in both Gum Deniz and Bahar fields. The drilling program will continue in 2013 and beyond, and includes a total of 83 new wells in the Gum Deniz field and 7 in the Bahar field. Total planned recompletions include 29 in the Gum Deniz field and 40 in the Bahar field.

- Workover and rehabilitation operations continued through 2011. A total of 12 maintenance jobs and 4 workovers were performed using the older Soviet-era rigs contracted from SOCAR. This program was successful in performing basic well services, including tubing and gas lift repairs. Success in workovers and recompletions was slowed due to the limitations of the Soviet-era workover rigs. The rigs are limited in their capabilities to pull tubing, clean out sand and perform wireline work and are unable to rotate pipe, perform cementing work or do jobs fishing for downhole material. Only 4 limited workovers were undertaken with 3 of 4 being successful initially adding 375 bbl/d of new production.

  Although limited in scope, the workovers have helped to maintain field production levels after accounting for well downtime due to operational and weather issues. Well service interventions and selected workovers and recompletions will continue to be performed using these rigs. Although not ideal, they are suitable and economical for less challenging maintenance well work.

- As an example of their usefulness in spite of their limited capabilities, in the first quarter of 2012, the Gum Deniz well 447 was successfully perforated and recompleted in an untested Zone X interval using one of the Soviet-era workover rigs. Subsequently, the well has been producing at rates averaging 250 bbl/d.

- A coiled tubing unit was contracted and arrived in November. It successfully cleaned out sand in Gum Deniz well 372 so that the tubing could be pulled and placed back in operations. The well was put back on line and is now producing at rates averaging 230 bbl/d. The unit is also being considered for use as a drilling rig for multi-lateral recompletions. The engineering for that program is ongoing.

- Two new Western-style workover rigs arrived in Poti, Georgia on April 6, 2012 and their arrival in Baku is expected in late April and early May. These rigs are designed for the operational requirements of the Gum Deniz and Bahar fields and are under three-year contracts. After arrival, the rigs will undergo a thorough commissioning process, then be mobilized and installed on offshore platforms using a heavy-lift crane barge. The rigs will initially operate from Platform 2 in the Gum Deniz oil field and Platform 196 in the Bahar gas field. To accommodate drilling operations, significant modifications were made to these platforms. Except for pile caps, this work has been completed. Pile caps are expected to be installed prior to the rig mobilizations. Drilling operations are expected to start in June.

  The rig assigned to the Bahar field will work in recompleting gas wells that have, in most cases, been shut in due to operational difficulties. These wells have significant potential in untested zones behind pipe productive zones. Five recompletions are expected to be done in 2012.

  The modern rig assigned to the Gum Deniz field will be engaged in drilling development wells in the under-developed northern area of the Gum Deniz field. It is being upgraded for drilling by adding a topdrive, larger mud tanks and 1300 horsepower ("**HP**") drilling mud pumps. At least four wells are expected to be drilled in 2012. The field development plans include a total of 23 wells in north Gum Deniz field, which will be drilled from existing platforms, and a total of 60 wells which will be drilled in the south Gum Deniz field on new platforms presently in the design stage.

- Two seismic data acquisition programs, the 2D in the Gum Deniz field and the 3D in the Bahar-2 exploration area, are expected to be completed in 2012. After delays related to vessel suitability and weather, the 140-km 2D project was completed in April 2012. The data quality appears good and is being processed and interpreted.

  The 3D project started in June 2011 and after acquiring 45 km^2 of 3D data, was delayed further when the work was suspended due to bad weather. Acquisition is expected to restart in May, when an additional 43 km^2 of 3D will be shot. After acquisition, processing and interpretation will be conducted. If the interpretation confirms an attractive exploration prospect in the Bahar-2 exploration area, Bahar Energy will develop an appropriate drilling strategy to evaluate the prospect. Drilling could occur in late 2013 or early 2014 in the Bahar-2 area.

SELECTED ANNUAL INFORMATION

	IFRS		CDN GAAP
(US$000's,except as noted)	Year ended December 31,		
	2011	2010	2009
Financial			
Revenues	26,801	8,091	177
Net (loss) income	(16,538)	(4,869)	1,186
Per share, basic and diluted	($1.11)	($0.54)	$0.18
Operating			
Average Entitlement Sales Volumes [1]			
Oil and condensate (bbl/d)	397	452	-
Natural gas (mcf/d)	4,121	4,455	-
Barrel oil equivalent (boe/d)	1,084	1,194	-
Average Oil Price			
Oil price ($/bbl)	$103.53	$83.06	-
Net realization price ($/bbl)	$99.67	$79.38	-
Brent oil price ($/bbl)	$111.26	$86.54	-
Natural gas price ($/mcf)	$3.96	$3.96	-
Capital Items			
Cash and cash equivalents	25,289	47,977	1,326
Total Assets	61,127	57,316	1,778
Working capital [2]	29,674	49,710	1,345
Shareholders' equity	36,521	50,457	1,679

[1] 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.

[2] Working capital, presented here, is current assets net of current liabilities.

SUMMARY OF QUARTERLY RESULTS

(US$000's,except as noted)	IFRS							
	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Revenues								
Petroleum and natural gas	5,023	5,171	5,162	5,618	5,078	-	-	-
Transportation & storage fees	431	581	360	762	-	-	-	-
Management service fees	666	568	2,400	59	2,594	84	84	251
	6,120	6,320	7,922	6,439	7,672	84	84	251
Net loss	(14,543)	(461)	(703)	(831)	(1,710)	(1,127)	(866)	(1,166)
Per share, basic and diluted	($0.98)	($0.03)	($0.05)	($0.05)	($0.14)	($0.13)	($0.11)	($0.16)
Operating								
Average Entitlement Sales Volumes [2]								
Oil and condensate (bbl/d)	360	388	395	448	452	-	-	-
Natural gas (mcf/d)	4,276	4,000	3,862	4,349	4,455	-	-	-
Barrel oil equivalent (boe/d)	1,072	1,055	1,039	1,172	1,194	-	-	-
Prices								
Average oil price ($/bbl)	$104.71	$103.93	$104.89	$100.98	$83.06	-	-	-
Natural gas price ($/mcf)	$3.96	$3.96	$3.96	$3.96	$3.96	-	-	-
Capital Items								
Cash and cash equivalents	25,289	28,615	30,295	36,328	47,977	14,101	3,596	5,362
Total Assets	61,127	63,094	63,968	62,995	57,316	16,320	5,010	5,789
Working capital [2]	29,674	41,040	47,247	48,876	49,710	13,516	3,223	5,090
Shareholders' equity	36,521	49,914	49,971	50,230	50,457	14,436	3,177	4,015

[2] Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes sold net of 5% compensatory petroleum and the government's share of profit petroleum.

[2] Working capital, presented here, is current assets net of current liabilities.

RESULTS OF OPERATIONS

Revenues

(US$ 0000's)	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Petroleum	3,465	3,453	15,018	3,453
Natural gas	1,558	1,625	5,956	1,625
Total petroleum and natural gas	5,023	5,078	20,974	5,078
Transportation and storage fees	431	-	2,134	-
Management service fees	666	2,594	3,693	3,013
Total revenues	6,120	7,672	26,801	8,091

In 2011, the Corporation completed the first year of producing operations related to its Bahar Energy project in the Azerbaijan sector of the Caspian Sea. For the year, revenue recognized by the Corporation from the project for crude oil and natural gas was $15.0 million and $6.0 million, respectively. On a comparative basis, the revenues for the three month periods ended December 31, 2011 and 2010 were for crude oil $3.5 million in both periods, and for natural gas $1.6 million and $1.7 million, respectively. The revenues were net to the Corporation after the government's share of profit petroleum revenue and compensatory petroleum production were deducted.

The average price received for crude oil in 2011 was $103.53 per barrel compared to an average price of $83.06 in 2010. The price for natural gas between the two years remained contractually constant at $3.96 per thousand cubic feet.

The annual crude oil and natural gas production in 2011 net to the Corporation was 145 mbbls and 1,054 mmcf, respectively. The corresponding oil equivalent for 2011 was divided between crude oil and natural gas 37% and 63%, respectively, and the total year value was 395 mboe. Comparing the average daily production for the three month periods ending December 31st, crude oil was 360 bbl/d in 2011 and 452 bbl/d in 2010, a 20% decrease in 2011. The decline in oil production was attributable to the harsh 2011 weather conditions and its effect on oil facilities and pipeline transportation. Natural gas daily production compared for the same quarterly period was 4,276 mcf/d in 2011 and 4,455 mcf/d in 2010, a 4% reduction in 2011. Also for the same three month period the oil equivalent daily production was 1,072 boe/d in 2011 and 1,194 boe/d in 2010, a 10% decline in 2011.

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

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
$/bbl				
Average crude oil sales price	104.71	83.06	103.53	83.06
Transportation fees	(2.72)	(2.77)	(2.74)	(2.77)
Marketing fees	(1.06)	(0.86)	(1.07)	(0.86)
Other costs (2)	(0.04)	(0.05)	(0.05)	(0.05)
Crude oil	100.89	79.38	99.67	79.38
$/mcf				
Natural gas	3.96	3.96	3.96	3.96

(1) "Net realization price" is a non-IFRS and non-GAAP measurement. The net realization price for crude oil is calculated by deducting from the average crude oil sales price the average costs per barrel for transportation, marketing, port storage, customs, banking fees and certification fees. There are no deductions from the sales price of natural gas.

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

Transportation and storage fees

For the three months and year ended December 31, 2011, the Corporation recognized transportation and storage revenue of $431 thousand and $2.1 million, respectively, under a fee arrangement to supply excess capacity available in the Corporation's interest in the ERDPSA. The contract was finalized in May 2011 and had a retroactive effective date of October 1, 2010. The above cited revenue of $2.1 million for the year ended December 31, 2011 includes transportation revenues attributable to the fourth quarter 2010.

Management and service fees

For the three months and year ended December 31, 2011, the Corporation recorded revenue of $59 thousand and $236 thousand in management fees, respectively ($84 thousand and $419 thousand, respectively in 2010). Excluding a final $167 thousand installment in January 2010 for consulting services provided to the purchaser of the Corporation's Greenfields Petroleum (Lahat) Company subsidiary, all other management fees relate to a management services agreement with GFPI-USA, LLC. Management fees are renegotiated annually based on the approved work program of GFPI-USA and the amount of management, technical and administrative services expected to be provided by the Corporation. Agreed monthly management fees for 2011 were $19.6 thousand versus $28 thousand for 2010.

For the three months and year ended December 31, 2011, the Corporation recorded service fee revenue of $607 thousand and $3.5 million, respectively, for technical assistance provided to BEOC during the periods ($2.5 million for quarter and year ended December 31, 2010). These services were provided under a Master Service Agreement ("**MSA"**) between the Corporation and BEOC.

Operating expenses

The Corporation's operating expenses for the Bahar project were $20.4 million in 2011. The fourth quarter 2011 saw expenses nearly double when compared to the average expenditures in the first three quarters of 2011. The increased costs were reflective of the abnormally cold and windy weather incurred during the period.

There were many facility failures including heaters, separators, compressors and pumps. The repairs on equipment, buildings and the temporary rental of replacement gear were common throughout the 2011 final quarter and required atypical personnel overtime as well as additional marine transportation services. In total, it was estimated the climate severity added approximately $2.6 million net to the Corporations operating expenses for the fourth quarter of 2011. Furthermore in the quarter, the President of Azerbaijan requested that certain environmental clean-ups be undertaken by the operators on the Absheron peninsula. BEOC spent $4.3 million, $1.5 million net to the Corporation, in the clean-up effort. Although the Bahar contractors are to be indemnified under article 29.6 of the ERDPSA for any pre-effective date environmental damage, arrangements for how and when reimbursement will take place are now being discussed with SOCAR.

Exploration and evaluation expenses

During the three months and year ended December 31, 2011 the Corporation incurred $441 thousand and $1.0 million , respectively, in evaluation expenses related to 2D seismic acquisition for the Bahar and Gum Deniz fields which program started in the second quarter 2011 (2010 - $ nil).

Pre-licensing costs

For the three months and year ended December 31, 2011 the Corporation incurred $1.4 and $2.6 million, respectively, ($57 and $235 thousand for the same periods in 2010), in other business development activities mainly focused on the prospecting and evaluation of opportunities to acquire working interests in properties located in South America and South East Asia.

Administrative expenses

	Three months ended December 31		Year ended December 31	
(US$ 000's)	2011	2010	2011	2010
Cash expenses				
Employee wages and benefits	1,542	1,077	3,782	2,267
Professional service costs	742	629	4,076	2,120
Office, travel and other	417	522	1,693	1,313
Total cash expenses	2,701	2,228	9,551	5,700
Stock-based compensation	197	649	1,577	1,576
Foreign office costs	1,632	3,216	4,219	3,216
Total gross administrative	4,530	6,093	15,347	10,492
Service fees billed to affiliates	(607)	(2,510)	(3,457)	(2,510)
Administrative expenses net of service fees	3,923	3,583	11,890	7,982

Administrative expenses for the three months and year ended December 31, 2011, excluding non-cash stock-based compensation and foreign office administrative costs, were $2.7 million and $9.6 million, respectively, (2010 - $2.2 million and $5.7 million). The increase in administrative expenses with respect to the same periods in 2010 are mainly attributable to higher staffing levels and travel costs associated with supporting the ERDPSA project in Azerbaijan, as well as professional fees associated to the redomestication of the Corporation to the Cayman Islands. Most of the increase in expenses attributable to the ERDPSA is recovered through service fee billings to the project under a Master Service Agreement and work specific Affiliate Service Orders ($607 thousand and $3,457 thousand for the three months and year ended December 31, 2011).

Foreign office administrative expenses for the three months and year ended December 31, 2011 were $1.6 million and $4.2 million, respectively. With the exception of expenses of $370 thousand for first quarter 2011, the expenses for the remaining quarters of the year have averaged $1.3 million per quarter. During the quarter ending December 31, 2010, administrative expenses reached the level of $3.2 million mostly due to the one time inclusion of pre-effective date expenses being billed to the project by the partners in Bahar Energy and some initial startup costs. The ERDPSA project in Azerbaijan became effective October 1, 2010.

Share-based payments

Share-based compensation expense for the years ended December 31, 2011 and 2010 remained flat at $1.57 million. The expense increases associated to stock option grants for new employees were offset by the reduction in the monthly amortization expense associated to the grants vesting in May 2011.

In accordance with the Corporation's Stock Option Plan, a total of 1,211,000 stock options were issued during 2010, 30,000 in the first quarter of 2011, 100,000 in the second quarter 2011 and 100,000 in the third quarter of 2011. The exercise prices of the stock options ranges from CDN$6.50 to CDN$9.50 per common share with all options expiring on various dates between years 2020 and 2021. The stock options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of grant date.

As at December 31, 2011 the Corporation has a total of 1,392,250 outstanding options, 721,750 of which are exercisable with remaining contractual lives ranging from 4.67 to 9.39 years.

As a provision of the Corporation's Stock 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.

The fair value of each stock option granted was estimated on its date of grant using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Risk-free interest rate range	0.9% - 2%	1.33% - 1.49%
Expected life - years	4.0	4.0
Expected volatility	47.25%	49.53%
Expected dividend	-	-
Forfeiture	-	-
Weighted Average fair value of options at grant date	$3.40	$2.58

Dividends, interest and other Income

For the three months and year December 31, 2011, the Corporation recorded $29 thousand and $229 thousand respectively, as income from short term investments ($nil for same periods of 2010). This income relates to interest received or accrued from investments in corporate bonds and dividends from income-producing mutual funds. During the quarter ended September 30, 2011, the Corporation divested $4.6 million from income-producing mutual funds and invested the proceeds in money market funds.

Changes in fair value of warrants

The Corporation issued warrants in conjunction with a private placement in February 2010 which have an exercise price denominated in Canadian dollars whereas the Corporation's functional currency is U.S. dollars. The option to exercise these warrants was set to expire on February 22, 2012.

Under IFRS, these warrants are considered a derivative financial liability due to "foreign currency" fluctuations and the resulting variable proceeds the Corporation will realize for each share issued if such warrants are exercised, and because they were not offered pro rata to all existing owners of the same class of shares. A derivative financial liability is measured at fair value on each balance sheet date with changes in fair value recognized in profit or loss.

For the three months and year ended December 31, 2011, the derivative liability decreased by $62 thousand and $1.2 million, respectively. For the three months ending December 31, 2010, the derivative liability decreased by $183 thousand and for the year ended December 31, 2010, the derivative liability increased by $908 thousand. The respective non-cash derivative gains and losses associated to such changes in the derivative liability were recognized through profit or loss in the respective periods.

The Corporation had a total of 519,500 outstanding warrants as of December 31, 2011 which were fully exercised through various dates between January 6 and February 22, 2012. As of the date of this report, the Corporation had no warrants outstanding.

Impairment of receivables

During 2011 the Corporation recorded an impairment provision of $1.1 million associated with pre-effective date costs invoiced to the Bahar Energy to reflect non-collection of this amount to date. Nevertheless, management is continuing to pursue collecting this balance due.

Provisions

The Corporation has recorded a provision for potential claims settlement in the amount of $1.0 million (2010 - $ - nil). The provision arose from a former consultant's claim. The Corporation, in an attempt to resolve the matter, has proposed a consulting agreement with the consultant. The value of the cash portion of the agreement is $1.0 million. In addition, selected shareholders of the Corporation will transfer shares of their own stock in the Corporation to the consultant.

Income taxes

The provision for income taxes differs from the result that would have been obtained by applying the U.S. federal income tax rate of 35% to the loss before income taxes. The difference results from the following items:

	Year ended December 31	
(US$ 000's)	2011	2010
Comprehensive loss before income taxes	(14,660)	(6,447)
U.S. federal corporate income tax rate	35%	35%
Expected income tax (recovery) expense	(5,131)	(2,256)
Add (deduct) the tax effect of:		
Non-taxable / deductible items	1,089	213
Warrants fair value adjustment	(428)	318
Share-based payments	784	147
Current income tax (recovery) expense	(3,686)	(1,578)
Derecognition of deferred tax asset for current year	4,022	-
Current Income tax (recovery) expense	336	(1,578)
Less: Adjustments in respect to prior years	(1,588)	-
Deferred income tax expense (recovery)	1,924	(1,578)

At December 31, 2011, the Corporation has a cumulative loss carryforward of approximately $10.6 million that will expire in 2030 and 2031. The Corporation expects to be able to fully use these losses, but has elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured.

Currently, the Corporation's primary income producing assets are held through its 33.3% ownership in Bahar Energy. The project, being in the early rehabilitation and development stage, requires significant development funding and re-investment of operating cash flows for the foreseeable future. Financially reported earnings from the Bahar project are not taxable to the Corporation in the US until Bahar Energy declares to pay dividends from the surplus funds generated from the ERDPSA operations. Before Bahar Energy can declare dividends, shareholders loans must be repaid with accumulated interest expense. The loan repayments will be returned to the Corporation as principal which is non-taxable.

Under IFRS, when an entity has a history of recent losses, the entity should recognize a deferred tax asset from unused tax losses and tax credits only to the extent that there is sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which unused taxable losses and tax credit can be used in the foreseeable future. IFRS also allows an entity to subsequently recognize previously unrecognized tax assets to the extent future profits will allow recovery before the expiration of the statutory tax-basis net operating losses.

With much of the early funds returned from Bahar Energy being non-taxable as loan repayments, the Corporation's potential taxable dividends horizon is beyond that normally allowed under IFRS for recognition of deferred tax assets. As noted above, the Corporation has elected to derecognize its accumulated deferred tax asset, but will continue to reassess the unrecognized deferred tax asset at the end of each reporting period.

Azerbaijan

The Corporation is tax protected under the terms of the ERDPSA in Azerbaijan. In accordance with the terms of the agreement, the Corporation determines the liability for income tax which would otherwise be payable in connection with its Azerbaijan operations. Any such tax determined in connection with the Corporation's operations is paid by SOCAR from their share of production and the Corporation retains no liability for payment of income taxes.

Per share information

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Net loss per share, basic and diluted	($0.98)	($0.14)	($1.11)	($0.54)

EQUITY CAPITAL

Authorized capital structure of the Corporation is 49,900,000 common shares and 100,000 preferred shares, each at US dollars $.001 par value. As of the date of this report, the Corporation had 15,540,355 common shares outstanding and no preferred shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

(US$ 000's)	December 31, 2011	December 31, 2010
Working Capital	29,674	49,710
Shareholders' Equity	36,521	50,457
Ratio of Working Capital to Shareholders' Equity	81%	99%

The Corporation expects to continue financing its 2012 contractual commitments under the ERDPSA with cash on hand, short term investments non-cash working capital and cash from operations. Additional cash flow needs resulting from strategic changes to capital expenditure programs would be raised by issuing debt or equity securities or a combination of both.

Off-balance sheet arrangements

The Corporation does not have any special purpose entities, nor is it party to any transactions or arrangements that would be excluded from the Corporation's balance sheet.

Related party transactions

A detailed discussion of related party transactions is included in Note 8 to the Consolidated Financial Statements for the year ended December 31, 2011.

Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 23 to the Consolidated Financial Statements for the year ended December 31, 2011.

Contractual commitments and obligations

A detailed summary of the Corporation's contractual commitments and obligations is included in Note 20 to the Consolidated Financial Statements for the year ended December 31, 2011.

SUBSEQUENT EVENTS

- During January and February 2012, before the February 24, 2012 expiration of the Corporation's warrants issued pursuant to a private equity placement completed in February 2010, all 519,500 warrants outstanding at December 31, 2011 were exercised resulting in Greenfields raising CDN$2,597,500.

FINANCIAL AND LIQUIDITY RISKS

The Corporation anticipates that it will make capital expenditures for the farm-in, acquisition of licenses, exploration, development, and production of oil and natural gas in the future. On an ongoing basis, the Corporation will typically plan to use three sources of funding to finance its capital expenditures program: internally generated cash flow from operations, debt where deemed appropriate and new equity issues, if available at favorable terms. In addition, the Corporation may contemplate the sale of producing properties or the sale of other assets to fund its contractual obligations.

Funds flow

Funds flow is influenced by many factors, which the Corporation cannot control, such as commodity prices, interest rates and changes to existing international government regulations and tax policies. Should circumstances affect cash flow in a detrimental way, the Corporation may have limited ability to expand the capital necessary to undertake or complete future drilling programs. In such circumstances, the Corporation would be required to either reduce the level of its capital expenditures or supplement its capital expenditure program with additional debt or equity financing.

There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements 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 significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations and business prospects.

Issuance of debt

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Supply of service and production equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity, these supplies and services can be difficult to obtain. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. The Corporation attempts to mitigate this risk by developing strong long-term relationships with suppliers and contractors. There can be no assurances that these relationships will increase the availability or cost effectiveness of the supplies and services.

ABBREVIATIONS

Abbreviation	Description
bbl	Barrels
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
km	Kilometer
sq km	square kilometer