Management's Discussion and Analysis

For the six months ended June 30, 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 with the unaudited Condensed Consolidated Financial Statements for the three and six months ended June 30, 2011, as well as the audited Consolidated Financial Statements for the year ended December 31, 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 August 29, 2011.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011, the Corporation adopted 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. The Note 3 to the Corporation's unaudited condensed consolidated financial statements as at and for the three and six months ended June 30, 2011 outlines the Corporation's IFRS accounting policies and Note 22 provides details of the Corporation's IFRS elections and reconciliations between Canadian GAAP and IFRS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding the Corporation 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

The Corporation was 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. On August 18, 2011 the Corporation completed a redomestication from the State of Delaware to the Cayman Islands.

BUSINESS OF THE CORPORATION

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 undeveloped 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 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 "**Contractor Parties**").

General highlights

- Approval of the Plan of Development ("**POD**") for rehabilitation and development of the Gum Deniz oil field and Bahar gas field in the Bahar ERDPSA was received from SOCAR on June 22, 2011.
- Approval of the POD from SOCAR starts the performance period in which the Contractor Parties (Bahar Energy and SOCAR Oil Affiliate) are required to increase, for a period of ninety consecutive days, production in the rehabilitation area within three years to 150% of the 2008 oil and natural gas production levels from the Gum Deniz oil field and the Bahar gas field. The gross 2008 production levels of the Gum Deniz oil field and the Bahar gas field were 1,233 bbl/d and 18.8 mmcf/d. Current gross production levels are approximately 1,263 bbl/d and 12.7 mmcf/d.
- Two workover rigs are now in service, one each in the Bahar and Gum Deniz fields, using older-style rigs provided by SOCAR. Two newer western style workover rigs are scheduled to arrive and be placed in the fourth quarter 2011 and first quarter 2012. New well drilling operations are scheduled to start in the fourth quarter of 2011 with the arrival of a drilling rig.

Second quarter 2011 highlights

- The Corporation's entitlement sales volumes from production for its net interest in the Bahar ERDPSA averaged 395 bbl/d and 3.9 mmcf/d or 1,039 boe/d in the quarter and 421 bbl/d and 4.1 mmcf/d or 1,105 boe/d year to date.
- Through its interest in Bahar Energy, the Corporation realized an average oil price $104.89 per barrel and $3.96 per mcf in the quarter and $102.82 per barrel and $3.96 per mcf year to date.

OPERATIONAL OUTLOOK

In the third quarter work over operations began on well 209 in the Bahar gas field and well 464 in the Gum Deniz oil field using two locally sourced Azerbaijan (Soviet era) drilling rigs from SOCAR. Arrival of two new western style work over rigs is scheduled for the fourth quarter this year and first quarter next year. Once these rigs are in service it is anticipated that they will increase the operational efficiency and allow for the acceleration of the work over program in both Bahar and Gum Deniz fields. Platform modifications and upgrades are currently underway on platforms in the Gum Deniz oil field in anticipation of a drilling rig arriving in the fourth quarter of this year. If the proposed drilling program can be started in late fourth quarter, this would result in advancing the drilling program by 6 months over the original scheduled plan.

Bahar Energy has undertaken several facility upgrades as well as started a refurbishing program on six offshore platforms located in the Bahar ERPDSA in preparation for both the work over and drilling programs. A procurement program is underway to acquire associated equipment and work over materials needed to support the two western style work over rigs and drilling rig. On June 22, 2011, SOCAR approved the Phase I Plan of Development for the Contract Rehabilitation and Development Area and since that point Bahar Energy has been able to more quickly proceed to execute the Phase 1 program. The initial Phase I of the POD includes the drilling of 57 new development wells and completing 107 work overs in existing wells located in the Gum Deniz oil field and the Bahar gas field.

The Corporation, through its 33.33% affiliate Bahar Energy, has contracted the acquisition of 140 kilometers of 2-D seismic. Approximately 70% of the 2-D program has been shot. It is anticipated that by year end the processing and shooting of this 2-D seismic program over the Bahar gas field and the Gum Deniz oil field will be complete.

In the Bahar 2 ("**BE-2**") exploration area of the ERDPSA, a 3-D seismic program is expected to begin in September. The contract for the 3-D seismic program is presently being negotiated and finalized. Data permitting, acquisition and processing in the BE-2 area for the 109 square kilometer program is expected to be completed in the second quarter of 2012. Should the 3-D seismic results confirm an attractive exploration target in the BE-2 exploration area, Bahar Energy plans to move one of the drilling rigs temporarily off the development drilling program in the Gum Deniz oil field to drill in the BE-2 area in 2013.

The Corporation's 33.33% estimated share of Bahar Energy's current production is approximately 1,072 boe/d (400 bbl/d and 4.03 mmcf/d) net of the government's share. This represents a modest 2% decline over the second quarter entitlement volumes but it does not yet reflect any of the effects of the work over program started in the third quarter.

OVERVIEW AND SELECTED QUARTERLY INFORMATION

Selected Information

($ Thousands, except as noted)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Financial				
Revenues	7,923	84	14,362	335
Net loss	(703)	(866)	(1,534)	(2,031)
Per share, basic and diluted	($0.05)	($0.11)	($0.10)	($0.27)
Operating				
Average Entitlement Sales Volumes [1]				
Oil/condensate (bbl/d)	395	-	421	-
Natural gas (mcf/d)	3,862	-	4,104	-
Barrel oil equivalent (boe/d)	1,039	-	1,105	-
Average Oil Price				
Oil price ($/bbl)	$104.89	-	$102.82	-
Net back price ($/bbl)	$100.81	-	$98.92	-
Brent oil price ($/bbl)	$117.01		$111.18	
Natural gas price ($/mcf)	$3.96	-	$3.96	-

Capital Items	June 30, 2011	December 31, 2010	June 30, 2010
Cash and cash equivalents	30,295	47,977	3,596
Total Assets	63,968	57,316	5,010
Working capital (2)	45,034	47,492	1,831
Shareholders' equity	49,971	50,457	3,177

[1] Daily volumes represent the Corporation's share of the contractor's entitlement sales volumes net of 5% compensatory petroleum and the government's share of profit petroleum.

[2] Working capital is used here to be current assets net of current liabilities.

Quarterly Performance

($ Thousands, except as noted)	IFRS					
	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Financial						
Revenues						
Petroleum and natural gas	5,162	5,618	5,078	-	-	-
Transportation & storage fees	360	762	-	-	-	-
Management service fees	2,401	59	2,594	84	84	251
	7,923	6,439	7,672	84	84	251
Net loss from operations	(703)	(831)	(1,710)	(1,118)	(865)	(1,166)
Per share, basic and diluted	($0.05)	($0.06)	($0.14)	($0.13)	($0.11)	($0.16)
Operating						
Average Entitlement Sales Volumes [1]						
Oil/condensate (bbl/d)	395	448	452	-	-	-
Natural gas (mcf/d)	3,862	4,349	4,455	-	-	-
Barrel oil equivalent (boe/d)	1,039	1,172	1,194	-	-	-
Prices						
Average oil price ($/bbl)	$104.89	$100.98	$83.06	-	-	-
Natural gas price ($/mcf)	$3.96	$3.96	$3.96	-	-	-
Capital Items						
Cash and cash equivalents	30,295	36,328	47,977	14,101	3,596	5,362
Total Assets	63,968	62,995	57,316	16,320	5,010	5,789
Working capital	45,034	46,309	47,492	12,307	1,831	3,713
Shareholders’ equity	49,971	50,230	50,457	14,436	3,177	4,015

[1] Daily volumes represent the Corporation’s share of the contractor’s entitlement sales volumes net of 5% compensatory petroleum and the government’s share of profit petroleum.

Quarterly Performance

($ Thousands, except as noted)	CDN GAAP	
	2009	
	Q4	Q3
Financial		
Revenues		
Petroleum and natural gas	-	-
Transportation and storage fees	-	-
Management service fees	(147)	110
	(147)	110
Net loss from continuing operations	(479)	(544)
Per share, basic and diluted	($0.07)	($0.09)
Net (loss) income	(158)	(174)
Per share, basic and diluted	($0.02)	($0.03)
Operating		
Not applicable	-	-
Capital Items		
Cash and cash equivalents	1,326	1,986
Total Assets	1,778	2,523
Working capital	1,350	1,617
Shareholders’ equity	1,679	1,803

RESULTS OF OPERATIONS

Revenues

($ Thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Petroleum	3,770	-	7,838	-
Natural gas	1,392	-	2,941	-
Total petroleum and natural gas	5,162	-	10,780	-
Transportation and storage fees	360	-	1,122	-
Management service fees	2,401	84	2,460	335
Total revenue	7,923	84	14,362	335

The Corporation has no comparative petroleum or natural gas operations prior to October 2010. Accordingly, the results of operations for the three months ended June 30, 2011 will be compared and contrasted against the three months ended March 31, 2011.

Hydrocarbon revenues in the three month periods ended June 30, 2011 and March 31, 2011 for crude oil were $3.8 million and $4.1 million, respectively, and for natural gas were $1.4 million and $1.5 million, respectively. The reduction in crude oil and natural gas revenue for the latest quarter compared to the prior was distorted by a revised profit oil entitlement allocation to contractors which was finalized in 2011 for the three month period ended December 31, 2010. The Corporation recognized the revisions to entitlement revenue and sales volumes in June 2011.

The average sales price for crude oil during the three month periods ended June 30, 2011 and March 31, 2011 was $104.89/bbl and $100.98/bbl, respectively. The natural gas price for each period was $3.96/mcf. The higher crude price partially offset the unfavorable impact of the 2010 profit oil revision.

As with revenues, crude oil and natural gas average daily entitlement sales volumes was lower in the three month period ended June 30, 2011 when compared to the three month period ended March 31, 2011. In the respective three month periods the average daily entitlement sales volumes for crude oil, natural gas, and barrels of oil equivalent were 395 bbl/d, 3,862 mcf/d and 1,039 boe/d compared to 448 bbl/d, 4,349 mcf/d and 1,172 boe/d. With respect to the 12% reduction in average entitlement sales volumes experienced in this second quarter 2011, the impact of the fourth quarter 2010 contractor entitlement revision to the net average daily entitlement sales volumes for crude oil and natural gas represented a reduction of 5%. The remaining 7% decline was attributable to delays in starting well maintenance and stimulation work. The pre–adjusted average daily entitlement sales volumes for crude oil, natural gas and barrels of oil equivalent in the quarter ended June 30, 2011 were 416 bbl/d, 4,061 mcf/d and 1,093 boe/d.

Oil netback price [(1)]

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Average sales oil price	$104.89	-	$102.82	-
Transportation fees	(2.85)	-	(2.76)	-
Marketing fees	(1.17)	-	(1.08)	-
Port storage, customs, bank and certification fees	(0.06)	-	(0.05)	-
Average oil netback price	$100.81	-	$98.92	-

(1) The “Oil Netback Price” is a non-IFRS and non-GAAP measurement. The ERDPSA defines the valuation of crude oil for the purposes of cost recovery (“Cost Oil”) and profit sharing (“Profit Oil”) as the netback value (“NBV”). The NBV is calculated by deducting from the average crude oil sales price the costs of transportation, marketing, port storage, customs and banking fees.

Transportation and storage fees

For the three month periods ending June 30, and March 31, 2011, the Corporation recognized transportation and storage revenue of $360 thousand and $762 thousand, 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. Net revenue recognized for the quarter ended March 31, 2011 is for the six month period from October 1, 2010 to March 31, 2011 while the revenue recognized in the quarter ended June 30, 2011 is solely for that period.

Management fees

For the three and six months ending June 30, 2011, the Corporation recorded revenue of $59 thousand and $118 thousand in management fees ($84 thousand and $335 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 the Corporation’s affiliate company 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 are $19.6 thousand versus $28 thousand for 2010.

Also, for the three months ended June 30, 2011, the Corporation recorded revenue of $2.4 million for technical assistance provided to BEOC during the fourth quarter 2010 and the first and second quarter of 2011. These services were provided under the joint operating agreement part of the ERDPSA.

Operating expenses

During the first six months of 2011, the Gum Deniz and Bahar field operating expenses have increased approximately 23% between the three month period ended March 31, 2011 and the three month period ended June 30, 2011. The increase was due to higher marine transportation, material and labor cost for platform deck and hand rail repairs and general well maintenance in Gum Deniz.

Exploration and evaluation expenses

During the three and six months ended June 30, 2011, the Corporation incurred $356 thousand in evaluation expenses related to 2D seismic acquisition for the Bahar and Gum Deniz fields (2010 - $ nil).

Administrative expenses

	Three months ended June 30		Six months ended June 30	
($ Thousands)	2011	2010	2011	2010
Employee wages and benefits	796	408	1,580	794
Stock-based compensation	428	28	916	182
Professional service costs	1,656	579	2,532	1,087
Office, travel and other	517	299	1,056	497
Foreign office costs	1,161	-	1,530	-
	4,558	1,314	7,614	2,560

Administrative expenses for the three and six months ended June 30, 2011, excluding stock-based compensation and foreign office administrative costs, were $3.0 million and $5.2 million respectively

(2010 - $1.3 million and $2.4 million). The increase in administrative expenses with respect to the same periods in 2010 is mainly attributable to higher staffing levels and travel costs associated with supporting the ERDPSA project in Azerbaijan; international business development; and professional fees associated to the redomestication of the Corporation to the Cayman Islands.

Foreign office administrative expenses for the three and six months ended June 30, 2011 were $1.1 million and $1.5 million respectively. Administrative expenses from the ERDPSA project have decreased due to the prior quarters including pre-effective date expenses being billed to the project by the partners in Bahar Energy and some initial startup costs. The three months period ending June 2011 includes $0.8 million in professional expenses, which is the Corporation's one third share of $2.4 million in expenses billed to BEOC for the Corporation's technical assistance provided under the ERDPSA joint operations agreement during the fourth quarter 2010 and the first and second quarter 2011.

There were no foreign office administrative expenses for the three months and six months ended June 30, 2010 due to the ERDPSA project in Azerbaijan not being effective until October 1, 2010.

Stock-based expenses

Stock-based compensation expense for the three and six months ended June 30, 2011 was $428 thousand and $916 thousand (2010 - $28 thousand and $182 thousand). The higher expenses with respect to the same periods in 2010 were attributable to stock options granted to the Corporation's employees and permanent contractors in the last half of 2010 as well as first and second quarter 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 Q1 2011 and 100,000 in Q2 2011. The exercise prices of the stock options range from CDN$6.50 to CDN$9.50 per common share with all options expiring on various dates between years 2020 and 2021.

For the initial 2010 grant of 986,000 stock options, 25% vest on the date of grant and 25% vest on each of May 1, 2011, May 1, 2012 and May 1, 2013, except for stock options issued to a certain executive officer, which vest as to 25% on August 31, 2010 and 25% vest on each of the first, second and third anniversaries of February 1, 2010. For the second 2010 grant of 225,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of November 16, 2010.

For the 2011 grant of 30,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of March 14, 2011. For the fourth grant of 100,000 stock options, 25% vest on the date of the grant and 25% vest on each of the first, second and third anniversaries of May 19, 2011. A total of 48,750 stock options initially granted to a member of the Corporation's board of directors were forfeited as result of the member's resignation on April 19, 2011.

As a provision of the Corporation's Stock Option Plan, the optionee may make the following cashless exercise option at the discretion of the Compensation Committee:

When an Optionee incurs tax liability in connection with an option, which is subject to tax withholding under applicable tax laws and the optionee is obligated to pay the Corporation the required withholding amount due, the optionee may satisfy the tax withholding obligation in two cashless methods; (i) by surrendering to the Corporation common shares that have been owed by the optionee for more than sixmonths 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:

Black-Scholes option pricing model assumptions	
Risk-free interest rate range	1.33% - 2.00%
Expected life	4.0 years
Expected volatility	49.53%
Expected dividend	-
Forfeiture	-
Fair value range of options at grant date	$2.42 - $3.76

Income from short term investments

For the three and six months ending June 30, 2011, the Corporation recorded $76 thousand and $128 thousand as income from short term investments ($nil for same periods of 2010). This income relates to interest received and accrued from investments in corporate bonds and dividends from income producing mutual 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.

Under IFRS, these warrants are considered a derivative financial liability due to "foreign currency" fluctuations and resulting the variable proceeds the Corporation will realized 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 quarter ending June 30, 2011, the derivative liability decreased by $355 but showed a net increase of $7 thousand for the six months ended June 30, 2011. For the same periods of 2010, the derivative liability increased by $15 thousand and $70 thousand, respectively. The equivalent non-cash derivative gains or losses for those amounts were recorded in the respective periods. For the year ending December 31, 2010, the derivative liability increased by $908 thousand and the respective non-cash derivative loss for this amount was also recognized through profit or loss in that period.

Income taxes

	Three months ended June 30		Six months ended June 30	
($ Thousands)	2011	2010	2011	2010
Current	(396)	(391)	(449)	(519)
Deferred	(91)	-	(198)	-
Total provision for income taxes	(487)	(391)	(647)	(519)

For the three and six months ended June 30, 2011, the Corporation recorded a provision for income tax recovery benefits of ($487) thousand and ($647) thousand versus ($391) thousand and ($519) for the same periods in 2010. The lower tax provision and effective tax benefits in 2010 is the result of the Corporation being taxed as a partnership prior to February 20, 2010.

The Corporation, through its consolidated affiliate Bahar Energy, is subject to a 22% tax rate in Azerbaijan on earnings generated from the ERDPSA. The Corporation is also subject to taxes in the United States on consolidated results at an effective rate of 35%. Foreign tax payments associated with the ERDPSA qualify for foreign tax credits in the United States.

For the three and six months ended June 30, 2011, stock-based compensation associated with qualified Incentive Stock Options (ISO) and losses in the fair value of the Corporation's outstanding warrants are included in the Corporation's net operating losses, neither of which are deductible for US tax purposes. These non-tax deductible expense items have the effect of reducing the Corporation's effective tax rate below the maximum statutory tax rate in the US.

Per share information

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net loss per share, basic and diluted	($0.05)	($0.11)	($0.10)	($0.27)

Net loss and comprehensive loss

	Three months ended June 30		Six months ended June 30	
($ Thousands)	2011	2010	2011	2010
Net loss and comprehensive loss	(686)	(866)	(1,508)	(2,007)

EQUITY CAPITAL

Authorized 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 14,848,380 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

($ Thousands)	June 30, 2011	June 30, 2010
Working Capital	45,034	1,831
Shareholders' Equity	49,971	3,177
Ratio of Working Capital to Shareholders' Equity	90%	58%

The Corporation expects to finance its 2011 contractual commitments under the ERDPSA with funds from Bahar Energy operations, cash on hand and short term investments. If the Corporation undertakes any major acquisitions, management would expect to finance the transactions with a combination of debt and equity in a cost effective manner.

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 unaudited financial statements for the quarter ended June 30, 2011.

Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 19 to the unaudited Consolidated Financial Statements for the three and six months ended June 30, 2011.

Contractual commitments and obligations

We have assumed various contractual commitments and obligations in the normal course of our operations and financing activities. We included these obligations and commitments in our 2010 audited financial statements and MD&A. There have been no other significant developments since year end, other than the item noted below.

On April 15, 2011, the Corporation signed the Common Term Agreement ("**CTA**") between the shareholders of Bahar Energy where by each shareholder agrees to grant a credit facility to Bahar Energy up to specific amounts during a commitment period. As part of the CTA, the Corporation has also signed the 2011 Loan Agreement to fund up to $17.4 million during the period January 1, 2011 to December 31, 2011. During May 2011, the Corporation made the first advance under the 2011 Loan Agreement for $8.7 million. (See also Note 8, Related Party Transactions in the unaudited financial statements for the quarter ended June 30, 2011.

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 utilize three sources of funding to finance its capital expenditure program; internally generated cash flow from operations, debt where deemed appropriate and new equity issues, if available at favourable 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 and/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 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 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 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