GREENFIELDS PETROLEUM CORPORATION

Management's Discussion and Analysis

For the quarter ended March 31, 2012

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

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**”).

First quarter 2012 operating and financial highlights

- The Corporation’s entitlement sales volumes from production for its net interest in the Bahar ERDPSA averaged 335 bbl/d and 3,899 mcf/d or 985 boe/d in the quarter.

- Through its interest in Bahar Energy, the Corporation realized average oil and gas prices of $108.97 per barrel and $3.96 per mcf in the quarter.

- A total of 12 workovers were conducted consisting of 9 maintenance operations and 3 recompletions.

- On May 7, 2012 the Corporation announced that it has priced its marketed public offering (the “Offering”) of convertible unsecured subordinated debentures (the “Debentures” or “Offering”) and on May 9 filed an amended preliminary short form prospectus reflecting the terms of the Debentures. Pursuant to the Offering, the Corporation will issue $20,000,000 aggregate principal amount of Debentures at a price of $1,000 per Debenture.

    - The Offering is underwritten by a syndicate of underwriters. In addition, the Corporation granted the Underwriters an option, exercisable in whole or in part at any time up to 48 hours prior to the closing of the Offering on about May 30, to purchase up to an additional $5,000,000 aggregate principal amount of Debentures at a price of $1,000 per Debenture (the “Underwriters’ Option”). If the Underwriters' Option is exercised in full, the aggregate gross proceeds of the Offering will be $25,000,000. The net proceeds of the Offering will be used to fund the workover and drilling program in Gum Deniz Oil Field and Bahar Gas Field, and for general corporate and working capital purposes.

    - The Debentures will bear interest from the date of issue at 9.0% per annum, with interest payable semiannually in arrears on May 31 and November 30 of each year (each an “Interest Payment Date”) commencing on November 30, 2012 and will mature and be repayable on May 31, 2017 (the “Maturity Date”). Each $1,000 principal amount of Debentures will be convertible at the option of the holder at any time prior to the close of business on the earlier of the business day immediately preceding the Maturity Date and, if applicable, the last business day immediately preceding the date fixed for redemption, into approximately 117 common shares of Greenfields, representing a conversion price of

$8.55 per common share of Greenfields (the “Conversion Price”), subject to certain anti-dilution provisions.

Operating 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 during the quarter. 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. During the quarter the topsides on Platform 2 and 196 were removed. Pile caps and deck reinforcement plates have been fabricated and are now being installed. Once installation is complete, these platforms will be ready for rig mobilization. A design concept for new platform construction is completed and is going into the tender process for detailed design.

- During 2012, Bahar Energy is targeting to drill 4 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 will continue throughout 2012. Since the first of the year, a total of 12 well workover operations were completed; 9 maintenance and 3 recompletions. This work was conducted using the older Soviet-era rigs contracted from SOCAR. 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, selected workovers, and recompletions will continue to be performed using these rigs.

  Although not ideal, the rigs are suitable and economical for less challenging maintenance well work and have been successful in performing basic well services such as tubing and gas lift repairs, sand clean-outs and wireline work, but are unable to rotate pipe, perform cementing work or do fishing jobs to retrieve lost tubing and other material. Of note are the 447 and the 456 wells, which are delivering combined gross production of over 300 bbl/d (100 bbl/d net to the Corporation) since recompletion work was performed using these rigs.

- Two new Western-style rigs arrived in Baku in April and May. These rigs are designed for the operational requirements of the Gum Deniz and Bahar fields and are under three-year contracts. The rigs are undergoing a process of commissioning, mobilization and installation. The rigs will initially operate from Platform 2 in the Gum Deniz oil field and Platform 196 in the Bahar gas field. To accommodate rig operations, significant modifications were made to these platforms. Rig operations are expected to start in June.

  The rig assigned to the Bahar field will work on 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. Five recompletions in the Bahar field 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 drilling mud pumps. At least four wells are expected to be drilled in 2012. The field development plan 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-kilometer 2D project was completed in April 2012. The data is of good quality and processing is expected to be completed by end of the second quarter 2012.

The 3D project started in June 2011 and after acquiring 45 square kilometers of 3D data, was delayed further when the work was suspended due to bad weather. Acquisition recommenced May 7, 2012. The completion of the acquisition program is expected to take approximately 2 months after which, 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.

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SELECTED QUARTERLY INFORMATION

(US$000's,except as noted)	Three months ended March 31,	
	2012	2011
Financial		
Revenues	5,997	6,439
Net (loss) income	(3,054)	(831)
Per share, basic and diluted	($0.20)	($0.06)
Operating		
Average Entitlement Sales Volumes [1]		
Oil and condensate (bbl/d)	335	448
Natural gas (mcf/d)	3,899	4,349
Barrel oil equivalent (boe/d)	985	1,172
Average Oil Price		
Oil price ($/bbl)	$111.01	$100.98
Net realization price ($/bbl)	$108.97	$97.23
Brent oil price ($/bbl)	$118.71	$103.52
Natural gas price ($/mcf)	$3.96	$3.96
Capital Items		
Cash and cash equivalents	13,647	36,328
Total Assets	67,142	62,995
Working capital [2]	17,573	48,877
Shareholders' equity	37,009	50,230

[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 (excluding warrants liability).

SUMMARY OF QUARTERLY RESULTS

(US$000's, except as noted)	IFRS							
	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial								
Revenues								
Petroleum and natural gas	4,791	5,023	5,171	5,162	5,618	5,078	-	-
Transportation & storage fees	544	431	581	360	762	-	-	-
Management service fees	662	666	568	2,400	59	2,594	84	84
	5,997	6,120	6,320	7,922	6,439	7,672	84	84
Net loss	(3,054)	(14,543)	(461)	(703)	(831)	(1,710)	(1,127)	(866)
Per share, basic and diluted	($0.20)	($0.98)	($0.03)	($0.05)	($0.06)	($0.14)	($0.13)	($0.11)
Operating								
Average Entitlement Sales Volumes [1]								
Oil and condensate (bbl/d)	335	360	388	395	448	452	-	-
Natural gas (mcf/d)	3,899	4,276	4,000	3,862	4,349	4,455	-	-
Barrel oil equivalent (boe/d)	985	1,072	1,055	1,039	1,172	1,194	-	-
Prices								
Average oil price ($/bbl)	$111.01	$104.71	$103.93	$104.89	$100.98	$83.06	-	-
Natural gas price ($/mcf)	$3.96	$3.96	$3.96	$3.96	$3.96	$3.96	-	-
Capital Items								
Cash and cash equivalents	13,647	25,289	28,615	30,295	36,328	47,977	14,101	3,596
Total Assets	66,798	61,127	63,094	63,968	62,995	57,316	16,320	5,010
Working capital [2]	17,573	29,674	41,040	47,247	48,877	49,710	13,516	3,223
Shareholders' equity	37,009	36,521	49,914	49,971	50,230	50,457	14,436	3,177

[1] 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 (excluding warrants liability).

RESULTS OF OPERATIONS

Revenues

(US$ 0000's)	Three months ended March 31	
	2012	2011
Petroleum	3,386	4,068
Natural gas	1,405	1,550
Total petroleum and natural gas	4,791	5,618
Transportation and storage fees	544	762
Management service fees	662	59
Total revenues	5,997	6,439

The Petroleum revenues for the three month periods ended March 31, 2012 and 2011 were $3.4 million and $4.1 million, respectively, and natural gas revenues were $1.4 million and $1.6 million, respectively, for the same periods. Petroleum and natural gas revenues were net to the Corporation after deduction of the government's share of profit petroleum revenue and compensatory petroleum production.

The average price received for crude oil during the first quarter of 2012 was $111.01 per barrel compared to an average price of $100.98 for the same period in 2011. The price for natural gas remained contractually constant at $3.96 per thousand cubic feet.

The crude oil average daily entitlement production for the period ending March 31, 2012 was 335 bbl/d, a 25% decrease when compared to the production of 448 bbl/d in first quarter 2011. Natural gas daily entitlement production for the period ending March 31, 2012 was 3,899 mcf/d, a 10% reduction when compared to the production of 4,349 mcf/d in first quarter 2011. In terms of oil equivalent daily production, during the first quarter 2012 the Corporation recorded production of 985 boe/d which represented a 16% decline with respect to the production of 1,172 boe/d for the same period in 2011.

Production operations attributed the lower crude oil production to severe winter weather conditions, which kept crews from needed well maintenance work and in some incidents caused equipment failures requiring some wells to be shut-in. The major contributing factor to lower natural gas production was the loss of the Bahar field 209 well which went down in early April 2011. The shut-in of this well was a result of a blockage that could not be penetrated or removed. The well remains shut-in to this date.

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

	Three months ended March 31	
	2012	2011
$/bbl		
Average crude oil sales price	111.01	100.98
Transportation fees	(0.90)	(2.69)
Marketing fees	(1.13)	(1.01)
Other costs (2)	(0.01)	(0.05)
Crude oil	108.97	97.23
$/mcf		
Natural gas	3.96	3.96

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

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

Transportation and storage fees

For the three months ended March 31, 2012 and 2011, the Corporation recognized transportation and storage revenue of $0.5 million and $0.8 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 $0.8 million for the quarter ended March 31, 2011 includes transportation revenues attributable to the fourth quarter 2010.

Management and services fees

For the three months ended March 31, 2012 and 2011, the Corporation recorded revenue of $45 thousand and $59 thousand, respectively, in management and services fees. The management fees relate to revenue under a management services agreement with GFPI-USA, LLC. These are set annually based on the amount of management, technical and administrative services expected to be provided by the Corporation in support of the entity's work program. Agreed monthly management fees in effect for the periods ending March 31, 2012 and 2011 were $15 thousand and $19.6 thousand, respectively.

For the three months ended March 31, 2012 the Corporation recorded services fee revenue of $0.6 million (March 31, 2011 - $ nil) for technical assistance provided to BEOC during the quarter. These services were provided under a Master Service Agreement ("**MSA**") between the Corporation and BEOC finalized in the second quarter 2011 and retroactive from October 1, 2010.

Operating expenses

The Corporation's operating expenses for the Bahar project were $5.5 million and $3.9 million, respectively, for the periods ended March 31, 2012 and 2011. The higher expenses in the first quarter 2012 are consequence of field operations being hampered by severe wind and sub-freezing temperatures which resulted in additional stand-by charges, hindered performance of flow lines and failures in some older equipment. Additional heaters were rented to help maintain crude viscosity in the tanks and flow lines, large quantities of spare parts were replaced, compressors were rented to fill in for down units and employee overtime became the norm. Cost was higher in maintenance, marine transportation stand-by, equipment rentals and payroll.

Exploration and evaluation expenses

During the three months ended March 31, 2012 and 2011, the Corporation incurred $0.3 million (March 31, 2011 - $ nil) in evaluation expenses related to 2D seismic acquisition for the Bahar and Gum Deniz fields which program started in the second quarter 2011.

Pre-licensing costs

For the three months ended March 31, 2012 and 2011, the Corporation incurred $0.3 million and $0.4 million, respectively, 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

(US$ 000's)	Three months ended March 31 2012	2011
Cash expenses		
Employee wages and benefits	967	784
Professional service costs	730	601
Office, travel and other	535	423
Foreign office costs	602	370
Total cash expenses	2,834	2,178
Stock-based payment expense	504	487
Total gross administrative	3,338	2,665
Services fees billed to affiliates	(617)	(0)
Administrative expenses net of services fees	2,721	2,665

Administrative expenses for the three months ended March 31, 2012 and 2011, excluding non-cash stock-based compensation and foreign office administrative costs, were $2.2 million and $1.8 million, respectively. The increase in administrative expenses with respect to the same periods in 2011 are mainly attributable to higher staffing levels and travel costs associated with supporting the ERDPSA project in Azerbaijan. Most of the increase in expenses attributable to the ERDPSA is recovered through services fee billings to the project under a Master Service Agreement and work specific Affiliate Service Orders ($0.6 million and $ nil, respectively, for the three months ended March 31, 2012 and 2011).

Foreign office administrative expenses for the three months ended March 31, 2012 and 2011 were $0.6 million and $0.3 million, respectively.

Share-based payments

The share-based payments recorded by the Corporation are associated with stock option and restricted stock grants and shareholder settled transactions. Share-based payments expenses for the quarters ended March 31, 2012 and 2011 were $0.5 million and $0.5 million, respectively.

Share Options

A total of 80,000 stock options were issued in February 2012. As at March 31, 2012 a total of 1,521,000 stock options have been issued in accordance with the Corporation's Stock Option Plan at an average exercise price of CDN$ 7.11. The stock options issued vest 25% at date of grant and 25% on each of the first, second and third anniversaries of grant date.

For the three months ended March 31, 2012 the Corporation recorded share options expense of $0.3 million (2011: $0.5 million). The expense increases related to share option awards for new employees were more than offset by the reduction in the monthly amortization expense related to the older vested grants.

Grant Date	Number Outstanding	Expiry Date	Remaining Contractual Life (years)	Exercise price (CND$)	Number Exercisable
Aug. 31, 2010	937,250	Aug. 31, 2020	8.42	6.50	551,750
Nov. 16, 2010	225,000	Nov. 16, 2020	8.64	8.50	112,500
Nov. 16, 2010	30,000	Nov. 16, 2010	8.96	9.50	15,000
May 19, 2011	100,000	May 19, 2021	9.14	9.00	25,000
Sept. 1, 2011	100,000	Sept. 1, 2016	4.42	8.00	25,000
Feb. 1, 2012	80,000	Feb. 1, 2012	4.84	6.00	20,000
	1,472,250				749,250

As at March 31, 2012 the Corporation has a total of 1,472,250 options outstanding, 749,250 of which are exercisable with remaining contractual lives ranging from 4.4 to 9.1 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.

Restricted Stock Awards

On February 1, 2012 a 40,000 restricted share grant was awarded and shares were issued by the Corporation to a new officer. The shares vest 25% at grant date and 25% on the anniversary date thereafter in 2013, 2014 and 2015. The shares were valued at CAD$6.00, the closing price of the Corporation's stock on January 31, 2012, with the 25% vested on grant date included in the Corporation's share-based payments expense for the quarter. The remaining value of the unvested restricted share grant is amortized over the individual vesting periods. For the three months ended March 31, 2012 the Corporation recorded share-based payments expense related to share grants of $88 thousand (2011 - $15 thousand).

Shareholder Settled Transactions

Under IFRS, when a shareholder transfers its own shares in a manner that benefits the Corporation, such Corporation must recognize the value of that transfer over the period in which benefits are received. For the three months ended March 31, 2012, the Corporation recorded a $0.1 million (2011 - $ nil) expense for such transactions.

In December 2011 the Corporation recorded a $1.0 million provision expense associated with a claim shareholders of the Corporation anticipated settling through the transfer of their own shares to the claimant. For the three months ended March 31, 2012, the Corporation recorded a $0.125 million provision expense recovery to reflect the final settlement amount associated with this shareholder transaction. No treasury shares of the Corporation were issued as part of this settlement.

Dividends, interest and other Income

For the three months ended March 31, 2012 and 2011, the Corporation recorded $17 thousand and $52 thousand respectively, as income from short term investments. 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 24, 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.

At December 31, 2011 the derivative financial liability balance was $1.0 million. Through the exercise of all outstanding warrants during January and February 2012, before its expiration date on February 24, 2012, the fair value of the warrants was estimated in $0.6 million which difference with respect to the balance of the derivative liability at December 31, 2011 resulted in a positive adjustment to income of $0.3 million.

Income taxes

Currently, the Corporation's primary revenue 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. Earnings from the Bahar project are not taxable to the Corporation in the U.S. until Bahar Energy declares dividends from the surplus funds generated from the ERDPSA. Before Bahar Energy can declare dividends, shareholders' loans must be repaid with accumulated interest payable. The loan principal repaid to the Corporation is non-taxable.

With much of the early funds returned from Bahar Energy being non-taxable loan repayments, the Corporation's potential taxable dividends horizon is beyond that normally allowed under IFRS for recognition of deferred tax assets. As a result, the Corporation has elected to postpone recognition of deferred tax benefits and the associated deferred tax asset until such time recovery and offset against future taxable income can be assured. In December 2011 the Corporation derecognized its accumulated deferred tax asset by reversing amounts accumulated in 2010 and for the nine months ended September 30, 2011.

Per share information

	Three months ended March 31	
	2012	2011
Net loss per share, basic and diluted	($0.20)	($0.06)

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 15,540,354 common shares outstanding and no preferred shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

(US$ 000's)	March 31, 2012	March 31, 2011
Working Capital	17,573	48,877
Shareholders' Equity	37,009	50,230
Ratio of Working Capital to Shareholders' Equity	47%	97%

The Corporation expects to continue financing its 2012 contractual commitments under the ERDPSA with cash on hand, short term investments non-cash working capital, cash from operations and debt. Additional cash flow needs resulting from strategic changes to capital expenditure programs would be raised by issuing additional 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 condensed consolidated statements of financial position.

Related party transactions

A detailed discussion of related party transactions is included in Note 6 to the Condensed Consolidated Financial Statements for the period ended March 31, 2012.

Contractual commitments and contingencies

A detailed summary of the Corporation's contractual commitments and obligations is included in Note 18 to the Condensed Consolidated Financial Statements for the period ended March 31, 2012.

Financial instruments

A detailed summary of the Corporation's financial instruments is included in Note 19 to the Condensed Consolidated Financial Statements for the period ended March 31, 2012.

SUBSEQUENT EVENTS

- **Settlement of Claims**

  On May 18, 2012 the Corporation settled a claim made by a former consultant who had claimed rights to, among other things, a referral fee in the form of a small interest in the wholly-owned subsidiary of the Corporation that owns its 33.33% interest in Bahar Energy. In settlement, the Corporation entered into a new consulting agreement with the consultant with compensation of $1.0 million to be paid over 18 months. In addition, certain shareholders agreed to supplement the settlement with shares of their own stock in the Corporation. Previously, in December 2011, the Corporation had recorded a provision of $2.0 million for settlement of this claim. The Corporation has recorded a $125,000 provision expense recovery to reflect the final settlement amount associated with the shareholder transaction. No treasury shares of the Corporation were issued as part of this settlement.

- **Convertible Debentures**

  On May 30, 2012 the Corporation issued $23.7 million of convertible unsecured subordinated debentures (the "**Debentures**"). The Debentures will pay a 9.0% annual rate of interest from the date of issue with interest payable semi-annually in arrears on May 31 and November 30 of each year (each an "**Interest Payment Date**") starting on November 30, 2012 and will mature and be repayable on May 31, 2017 (the "**Maturity Date**").

  Each $1,000 Debenture principal amount will be convertible, at the option of the holder, at any time prior to the close of business on the earlier of the business day immediately preceding the Maturity Date and, if applicable, the last business day immediately preceding the date fixed for redemption, into approximately 117 common shares of the Corporation. The redemption ratio results from conversion price of $8.55 per common share of the Corporation and is subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date to the date of conversion.

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.

The Corporation's on-going activities are dependent upon its ability to manage the timing of the planned capital program and to obtain sufficient financing to fund its planned future operations and future development costs. Although management is confident that necessary financing will be obtained, 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 a going concern.

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