



Management's Discussion and Analysis

For the three and nine months ended September 30, 2014

(U.S. Dollars)

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for Greenfields Petroleum Corporation ("Greenfields" or the "Corporation") should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2014 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2013. 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 November 28, 2014.

This MD&A and the unaudited condensed consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

BUSINESS OF THE CORPORATION AND OPERATIONS

The Corporation is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan ("Azerbaijan"). The board of directors and management of the Corporation are experienced in financing, developing and operating international oil and gas fields, and possess the requisite technical skills and

business acumen to operate in diverse international environments. The Corporation plans to expand its oil and gas assets through further farm-ins and acquisitions of licenses focusing on previously discovered and under-developed international oil and gas fields.

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

Third quarter and Year-to-Date 2014 financial results

- For the third quarter and year-to-date 2014, the Corporation recorded revenues of \$0.6 million and \$1.5 million and realized net losses of \$0.7 million and \$4.5 million, respectively. For the third quarter and year-to-date 2014, the results represented a loss per share (basic and diluted) of \$0.04 and \$0.23, respectively. In comparison with the same periods in 2013, the Corporation recorded revenues of \$0.6 million and \$1.9 million and realized net losses of \$0.1 million and \$3.3 million, respectively. In addition, in comparison with the same periods in 2013, the Corporation realized losses per share of \$nil and \$0.29, respectively.
- The Corporation's 33.33% share of Bahar Energy entitlement sales volumes averaged 328 bbl/d and 6,050 mcf/d or 1,336 boe/d in the third quarter 2014, and 361 bbl/d and 7,330 mcf/d or 1,582 boe/d year-to-date 2014. In comparison to the average volumes for the same periods in 2013, bbl/d volumes decreased 43% and 31% respectively, while mcf/d volumes decreased 4% and increased 52% respectively, and boe/d decreased 18% and increased 19% respectively.
- For the third quarter and year-to-date 2014, the Corporation, through its interest in Bahar Energy, realized average oil prices of \$93.48 and \$99.45 per barrel, respectively. These prices decreased in comparison with the averages of \$106.39 and \$103.09 per barrel realized for the same periods in 2013. The Corporation, through its interest in Bahar Energy, realizes average gas prices of \$3.96 per mcf, which is a contractually constant fixed price.
- The Corporation's 33.33% share of Bahar Energy financial results realized net income of \$0.8 million and \$3.9 million for the third quarter and year-to-date, respectively. These results compare to net income of \$1.6 million and \$0.6 million, respectively, for the same periods in 2013.
- On July 2, 2014 the Corporation announced that it had secured a \$21 million loan facility ("**Loan**") with an arm's length third party (the "**Lender**"). The funds available under the Loan are intended to be used to finance the ongoing development operations of Bahar Energy in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field. Pursuant to the terms of the loan agreement (the "**Loan Agreement**") dated June 27, 2014, among the Lender, the Corporation, and Greenfields Petroleum Holdings Ltd., as guarantor, the Corporation is entitled to draw up to an aggregate of \$21 million, as needed, for the purposes of operations to meet the obligations of Greenfields Petroleum International Company Ltd. ("**GPIC**") under the shareholders agreement of Bahar Energy. The amount drawn under the Loan bears interest at a rate of 12% per annum. The Loan has a maturity date of June 30, 2018. The Loan is subject to a 0.15% commitment fee on the \$21 million where was payable to the Lender at the time of the first advance under the Loan Agreement. The Loan is secured by a second priority lien on the shares of GPIC.
- Pursuant to the terms of the investment and shareholders agreement (the "**Shareholders Agreement**") with respect to Bahar Energy, on July 23, 2014, GPIC, a wholly owned subsidiary of the Corporation, funded by way of a loan to Bahar Energy, approximately \$16.5 million of defaulted obligations (the "**Default Amount**") of the other shareholder of BEL, Baghlan Energy Limited

("Baghlan"). Bahar Energy is the parent of BEOC, being the operating company with respect to the Gum Deniz Oil Field and Bahar Gas Field.

Baghlan has failed to fund its share of the costs of Bahar Energy in accordance with the Shareholders Agreement and its funding loan obligation to Bahar Energy since January 1, 2014. The Shareholders Agreement provides that in the event of a default by a shareholder in a funding obligation, the other shareholder is required, by additional loan, to provide such funds to Bahar Energy. To the extent that Baghlan defaults on its future funding obligations, Greenfields anticipates that it may also fund such amounts by further loans to Bahar Energy.

As a result of the loan by GPIC of the Default Amount to Bahar Energy, pursuant to the Shareholders Agreement:

- all of Baghlan's loans to Bahar Energy have become "last in" loans and will not be repaid by BEL until all amounts outstanding under all of GPIC's loans to Bahar Energy, including the payment of the Default Amount, have been paid by Bahar Energy to GPIC in full, regardless of when such loans were made by Baghlan;
- Baghlan is deemed to have assigned to GPIC a share of its dividends equal to the sum of: (i) the Default Amount; (ii) Greenfields' Cost of Funding (as defined in the Shareholders Agreement) of such Default Amount; and (iii) a default rate of 4% on such Default Amount computed from and including the date on which the Default Amount has been funded by GPIC to, but excluding, the date Baghlan remedies the default (the "**Default Interest**"); and
- the right of any directors appointed by Baghlan to Bahar Energy to vote at a meeting of the board of directors of Bahar Energy is suspended until the Default Amount has been paid in full, together with the Default Interest.

Greenfields drew approximately \$16.5 million of the \$21 million available under the loan facility dated June 27, 2014 noted above to make this payment.

Operating highlights and plans

- Work continued in the third quarter 2014 on the recording, processing and interpretation of the 3D seismic over the Gum Deniz Oil Field, which was contracted in 2013. At the end of the quarter, a total of 67 square kilometers of data had been acquired. The acquisition rate did not improve as was expected during the spring and summer months as strong winds and seas continued to impede the seismic acquisition. The Corporation intends on continuing the seismic acquisition in order to acquire as much data as possible prior to the onset of winter weather. The Corporation anticipates sufficient data will be acquired to image the entire Gum Deniz Oil Field and the Corporation has commenced fast track processing of the data patches acquired to date. The Corporation anticipates this fast track processing will allow for early structural mapping to be done before the more detailed processing is completed. Once the acquisition is completed and the new data are processed and interpreted, the revised Gum Deniz reservoir model will be used to improve well site selection for the drilling program.
- The interpretation of the 3D seismic survey on the Bahar-2 exploration block recorded in 2012 was completed. Amplitude versus offset (AVO) analysis of the data delineated 12 prospects that exhibited characteristics of being gas filled. Drilling options and costs for testing the prospects are being evaluated to determine the economic viability of the prospects.
- In September 2014, BEOC re-entered the Gum Deniz 38 island well which was idle for more than 50 years. After a short workover and recompletion, the well averaged 286 bbl/d over the following 30 days. BEOC plans to pursue workovers of wells similar in profile to the Gum Deniz 38 and further optimize production with selected installations of additional ESPs. In addition, in October BEOC recompleted the Bahar field B-175 gas well in the Hor-X sands and current production remains stable at a rate of 3.5 mmcf/d.

- BEOC suspended new drilling operations in April because the drilling contractor failed to maintain appropriate insurance coverage for the drilling operations. BEOC is using the break in the drilling schedule to evaluate the recent drilling results, integrate the results of the current 3D seismic program, and to possibly tender for a more cost efficient drilling rig with expanded capabilities.
- Construction activity in the first quarter 2014 continued to focus on platform upgrades, primarily in the Bahar Gas Field, to support workovers, and on facilities improvement in the tank farm and process area.

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SELECT QUARTERLY INFORMATION

Greenfields Petroleum Corporation

<i>(US\$000's, except as noted)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Financial				
Revenues ⁽²⁾	612	575	1,508	1,946
Net (loss) income	(717)	(58)	(4,516)	(3,344)
Per share, basic and diluted	(\$0.04)	(\$0.00)	(\$0.23)	(\$0.21)
Capital Items				
Cash and cash equivalents			2,216	3,986
Total Assets			81,830	44,477
Working capital			3,537	3,525
Long term loan, convertible debt and shareholders' equity			63,307	42,244

Bahar Energy (Joint Venture)

<i>(US\$000's, except as noted)</i>	Total Joint Venture		Corporation's share	
	Three months ended September 30,			
	2014	2013	2014	2013
Financial				
Revenues	16,388	24,671	5,462	8,223
Net income	2,547	4,734	849	1,578
Operating				
Average Entitlement Sales Volumes ⁽¹⁾				
Oil and condensate (bbl/d)	983	1,718	328	573
Natural gas (mcf/d)	18,153	19,005	6,050	6,334
Barrel oil equivalent (boe/d)	4,008	4,886	1,336	1,628
Average Oil Price				
Oil price (\$/bbl)	\$93.48	\$106.39	\$93.48	\$106.39
Net realization price (\$/bbl)	\$91.49	\$104.20	\$91.49	\$104.20
Brent oil price (\$/bbl)	\$101.90	\$110.23	\$101.90	\$110.23
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items				
Total Assets	215,632	165,362	71,870	55,115
Total Liabilities	53,282	50,456	17,759	16,817
Net Assets	162,350	114,906	54,111	38,298

1) Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of compensatory petroleum and the government's share of profit petroleum. Effective October 1, 2013 the compensatory petroleum increased from 5% to 10% where it will remain until specific cumulative oil and gas production milestones are attained.

Bahar Energy (Joint Venture)

<i>(US\$000's, except as noted)</i>	Total Joint Venture		Corporation's share	
	Nine months ended September 30,			
	2014	2013	2014	2013
Financial				
Revenues	56,739	63,417	18,911	21,137
Net income	11,647	1,833	3,882	611
Operating				
Average Entitlement Sales Volumes ⁽¹⁾				
Oil and condensate (bbl/d)	1,083	1,572	361	524
Natural gas (mcf/d)	21,991	14,423	7,330	4,807
Barrel oil equivalent (boe/d)	4,748	3,976	1,582	1,325
Average Oil Price				
Oil price (\$/bbl)	\$99.45	\$103.09	\$99.45	\$103.09
Net realization price (\$/bbl)	\$97.38	\$101.01	\$97.38	\$101.01
Brent oil price (\$/bbl)	\$106.56	\$108.28	\$106.56	\$108.28
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items				
Total Assets	215,632	165,362	71,870	55,115
Total Liabilities	53,282	50,456	17,759	16,817
Net Assets	162,350	114,906	54,111	38,298

¹⁾ Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of compensatory petroleum and the government's share of profit petroleum. Effective October 1, 2013 the compensatory petroleum increased from 5% to 10% where it will remain until specific cumulative oil and gas production milestones are attained.

SUMMARY OF QUARTERLY RESULTS

<i>(US\$000's, except as noted)</i>	Greenfields Petroleum Corporation							
	2014			2013				2012 ⁽²⁾
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenues								
Management service fees	612	469	427	486	575	684	687	830
Net income (loss)	(717)	(4,900)	1,101	66	(58)	517	(3,803)	(5,934)
Per share, basic and diluted	(\$0.04)	(\$0.24)	\$0.06	\$0.00	\$0.00	\$0.03	(\$0.24)	(\$0.38)
Capital Items								
Cash and cash equivalents	2,216	4,910	2,763	3,068	3,986	6,721	2,837	12,404
Total Assets	81,830	65,772	60,129	49,337	44,477	41,973	36,458	40,560
Working capital	3,537	4,865	1,773	1,734	3,525	7,716	3,316	16,622
Long term loan, convertible debt and shareholders' equity	63,307	63,802	57,653	46,924	42,244	39,704	34,009	38,327

<i>(US\$000's, except as noted)</i>	Corporation's Share of Bahar Energy (Joint Venture)							
	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial								
Revenues								
Petroleum and natural gas	5,022	5,495	7,207	7,689	7,827	6,605	5,507	6,132
Transportation & storage fees	440	322	425	407	396	393	409	457
	5,462	5,817	7,632	8,096	8,223	6,998	5,916	6,589
Net income (loss)	849	(185)	3,218	1,818	1,578	1,090	(2,057)	(5,590)
Operating								
Average Entitlement Sales Volumes ⁽¹⁾								
Oil and condensate (bbl/d)	328	321	435	522	573	556	443	487
Natural gas (mcf/d)	6,050	6,983	8,987	7,352	6,334	4,645	3,405	3,928
Barrel oil equivalent (boe/d)	1,336	1,485	1,933	1,747	1,628	1,330	1,011	1,141
Prices								
Average oil price (\$/bbl)	\$93.48	\$101.83	\$102.36	\$104.34	\$106.39	\$97.52	\$105.80	\$105.02
Natural gas price (\$/mcf)	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96	\$3.96
Capital Items								
Total Assets	71,870	66,424	66,154	58,495	55,115	46,396	37,850	33,346
Total Liabilities	17,759	14,058	15,551	15,593	16,817	13,381	10,833	11,637
Net Assets	54,111	52,366	50,603	42,902	38,298	33,015	27,017	21,709

⁽¹⁾ Daily volumes represent the Corporation's share of the Contractor Parties entitlement volumes net of compensatory petroleum and the government's share of profit petroleum. Effective October 1, 2013 the compensatory petroleum increased from 5% to 10% where it will remain until specific cumulative oil and gas production milestones are attained.

⁽²⁾ These figures were restated to comply with the adoption of IFRS 11 in 2013 impacting the accounting for the joint venture.

RESULTS OF OPERATIONS FOR BAHAR ENERGY (JOINT VENTURE)

Revenues (US\$000's)	Total Joint Venture		Corporation's share	
	Three months ended September 30,			
	2014	2013	2014	2013
Petroleum	8,453	16,633	2,818	5,544
Natural gas	6,614	6,850	2,204	2,283
Total petroleum and natural gas	15,067	23,483	5,022	7,827
Transportation and storage fees	1,321	1,188	440	396
Total revenue	16,388	24,671	5,462	8,223

Revenues (US\$ 000's)	Total Joint Venture		Corporation's share	
	Nine months ended September 30,			
	2014	2013	2014	2013
Petroleum	29,402	44,230	9,799	14,742
Natural gas	23,775	15,593	7,924	5,197
Total petroleum and natural gas	53,177	59,823	17,723	19,939
Transportation and storage fees	3,562	3,594	1,187	1,198
Total revenues	56,739	63,417	18,910	21,137

The Corporation's share of Bahar Energy petroleum revenues for the three and nine months ended September 30, 2014 were \$2.8 million and \$9.8 million, respectively, compared to \$5.5 million and \$14.7 million, respectively, for the same periods in 2013. Natural gas revenues for the three and nine months ended September 30, 2014 were \$2.2 million and \$7.9 million, respectively, compared to \$2.3 million and \$5.2 million, respectively, for the same periods in 2013. Petroleum and natural gas revenues are recorded net by Bahar Energy after deducting for the government's share of profit petroleum and compensatory petroleum production. The decline in petroleum revenues is directly related to the failure of Baghlan and SOA to fund their share of the Bahar project 2014 capital work program resulting in the suspension of drilling operations and BEOC's reduced ability to conduct planned workovers in the Bahar gas and Gum Deniz oil fields. Revenues have also been negatively impacted by the general worldwide decline in oil prices during the third quarter 2014.

The average prices received for crude oil during the three and nine months ended September 30, 2014 were \$93.48 and \$99.45 per barrel, respectively, compared to average prices of \$106.39 and \$103.09, respectively, for the same periods in 2013. The price for natural gas remained contractually constant at \$3.96 per thousand cubic feet.

The Corporation's share of Bahar Energy crude oil daily entitlement production for the three and nine months ended September 30, 2014 was 328 bbl/d and 361 bbl/d, respectively, a 43% decline for the quarter and a 31% decline year to date when compared to production of 573 bbl/d and 524 bbl/d, respectively, for the same periods in 2013. Natural gas daily entitlement production for the three and nine months ended September 30, 2014 was 6,050 mcf/d and 7,330 mcf/d, a 4% decline for the quarter and a 52% increase year to date when compared to production of 6,334 mcf/d and 4,807 mcf/d, respectively, for the same periods in 2013.

The Corporations share of Bahar Energy's oil equivalent daily production, during the three and nine months ended September 30, 2013 was 1,336 boe/d and 1,582 boe/d, respectively, which represented a 18% decline for the quarter and a 19% increase year to date when compared to the production of 1,628 boe/d and 1,325 boe/d, respectively, for the same periods in 2013.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
\$/bbl				
Average crude oil sales price	\$93.48	\$106.39	\$99.45	\$103.09
Transportation fees	(\$0.96)	(\$1.09)	(\$1.02)	(\$1.05)
Marketing fees	(\$1.02)	(\$1.09)	(\$1.04)	(\$1.02)
Other costs ⁽²⁾	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Crude oil	\$91.49	\$104.20	\$97.38	\$101.01
\$/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 and nine months ended September 30, 2014, Bahar Energy's transportation and storage revenues were \$1.3 million and \$3.6 million, respectively, (\$0.4 million and \$1.2 million, respectively, for the Corporation's 33.33% share) compared to \$1.2 million and \$3.6 million, respectively, (\$0.4 million and \$1.2 million, respectively, for the Corporation) for the same periods in 2013. The transportation and storage revenues are based on a fee arrangement to supply excess capacity available in the Bahar facilities to another local producer.

Operating and administrative expenses

For the three and nine months ended September 30, 2014, Bahar Energy's operating and administrative expenses were \$11.6 million and \$37.3 million, respectively, (\$3.9 million and \$12.4 million, respectively, for the Corporation's 33.33% share) compared to \$18.3 million and \$58.8 million (\$6.1 million and \$19.6 million, respectively, for the Corporation) for the same periods in 2013. The major areas impacting the reduced operating and administrative expenses during the current year are permanent staff reductions, lower insurance costs, replacing fixed monthly service contracts with callout service agreements, reductions in operating materials and supplies purchases as well as lower repair and maintenance expenses. In addition, the second and third quarters of 2014 reflect a reduction of BEL's participation in BEOC expenditures from 100% to 80% as a result of meeting the TPR2 production target in March 2014.

RESULTS OF OPERATIONS FOR GREENFIELDS PETROLEUM CORPORATION

Revenues

(US\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Management service fees	612	575	1,508

Management and service fees

For the three and nine months ended September 30, 2014, the Corporation recorded service fee revenue of \$0.6 million and \$1.5 million, respectively, and \$0.6 million and \$1.9 million for the same periods in 2013. The fees are primarily related to administrative, commercial, legal and technical support assistance provided by the Corporation to BEOC under a Master Service Agreement (“MSA”) and personnel Secondment Agreements between the Corporation and BEOC for Greenfields employees working directly for BEOC. The year to date reduction in management service fees charged BEOC in 2014 versus 2013 is the result of the elimination of most third party services related to project management and the supervisor of the 3D seismic recording conducted during 2013 over the Bahar 2 exploration area.

Administrative expenses

Administrative expenses

(US\$000's)	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	Cash expenses			
Employee wages and benefits	459	788	2,712	3,006
Professional service costs	621	276	1,131	1,138
Office, travel and other	417	261	1,092	1,279
Total cash expenses	1,497	1,325	4,935	5,423
Share-based payment expense	291	40	1,300	797
Total gross administrative	1,788	1,380	6,235	6,220
Services fees billed to affiliates	(612)	(553)	(1,498)	(1,878)
Administrative expenses net of services fees	1,176	827	4,737	4,342

Administrative expenses, excluding non-cash stock-based compensation, for the three and nine months ended September 30, 2014 were \$1.5 million and \$4.9 million, respectively, compared to \$1.3 million and \$5.4 million for the same periods in 2013. The third quarter administrative expenses include \$0.5 million in professional service costs related to closing the \$21 million Loan Agreement. These costs were charged to Bahar Energy as part of expenses incurred to fund the Baghlan Default Amount and will therefore be reimbursed to the Corporation when the Short Term Loan to Related Party is settled.

For the three and nine month period ended September 30, 2014, net administrative expenses were \$1.2 million and \$4.7 million, respectively (September 30, 2013 - \$0.8 million and \$4.3 million, respectively).

Share-based payments

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(US\$000's)	2014	2013	2014	2013
Share options	117	25	379	75
Share awards	174	15	921	486
Shareholder settled transactions	-	-	-	50
Total share settled	291	40	1,300	611
Restricted cash bonus – cash settled	(219)	15	(163)	186
Total Share-based payments	72	55	1,137	797

The share-based payments recorded by the Corporation are associated with share options, restricted share awards, shareholder settled transactions and restricted cash bonus obligations, the latter being cash settled. Share-based payment expenses for the three and nine months ended September 30, 2014 were \$0.1 million and \$1.1 million, respectively, (September 30, 2013 - \$0.1 million and \$0.8 million, respectively).

Share Options

The Corporation's Share Option Plan governs the granting of options to employees, officers, directors and certain full time consultants. All options issued by the Corporation permit the holder to purchase a specific number of common shares of the Corporation at a stated exercise price. The Corporation has not issued stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of stock.

The exercise prices of the share options ranges from CAD\$2.90 to CAD\$14.00 per common share with all options expiring on various dates between years 2016 and 2021. With the exception of the June 2012 150,000 share options award and the "TPR1 Share Options" granted in October 2013, the share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date.

Share option expenses for the three and nine months ended September 30, 2014 were \$117 thousand and \$379 thousand, respectively, (September 30, 2013 \$25 thousand and \$75 thousand, respectively). The share options expense is offset to the Corporation's share-based payment reserve.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD\$)	Number Exercisable
Aug. 31, 2010	555,000	Aug. 31, 2020	5.9	6.50	555,000
Nov. 16, 2010	100,000	Nov. 16, 2020	6.1	8.50	100,000
Mar. 14, 2011	30,000	Mar. 14, 2021	6.5	9.50	30,000
May 19, 2011	100,000	May 19, 2021	6.6	9.00	100,000
Feb. 1, 2012	80,000	Feb. 1, 2017	2.3	6.00	60,000
Jun. 25, 2012	150,000	Jun. 25, 2017	2.7	13.00avg	150,000
Oct. 11, 2013	630,000	Oct. 11, 2018	4.0	3.20	210,000
Oct. 25, 2013	40,000	Oct. 25, 2018	4.1	3.00	10,000
Nov. 7, 2013	50,000	Nov. 7, 2018	4.1	2.90	12,500
May 7, 2014	140,000	May 7, 2019	4.6	3.25	35,000
	1,875,000				1,262,500

As at September 30, 2014 the Corporation has a total of 1,875,000 share options outstanding, 1,262,500 of which are exercisable with remaining contractual lives ranging from 2.3 to 6.6 years. The average exercise price of exercisable share options is CAD\$6.97.

As a provision of the Corporation's Share Option Plan, upon exercising his or her options, an optionee may satisfy his or her tax withholding obligations (i) by surrendering to the Corporation common shares that have been owned by the optionee for more than six months on the date of surrender with a market value equal to the withholding tax obligation or (ii) by electing to have the Corporation withhold from the common shares to be issued upon exercise of the option the number of common shares having a market value equal to the amount required to be withheld.

Restricted Share Awards

On February 1, 2012 a 40,000 restricted share grant was awarded and shares issued by the Corporation to a new officer at the value of CAD\$6.00 per share, the closing price of the Corporation's share on January 31, 2012. The shares vest 25% at grant date and 25% on the anniversary date thereafter in 2013, 2014 and 2015. For the three and nine months ended September 30, 2014, the Corporation recorded share-based payments expense related to restricted share awards of \$15 thousand and \$45 thousand, respectively (September 30, 2013 - \$15 thousand and \$49 thousand, respectively). For the three and nine months ended September 30, 2013, the Corporation recorded share-based payments expense related to earlier awards of \$nil and \$437 thousand, respectively.

In September and October 2013 the Corporation authorized the awards of 186,000 and 230,000 restricted shares, respectively, to certain officers and a director of the Corporation. The awards are contingent to the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar and implementation of study recommendations. The shares awarded upon the achievement of each indicated milestone will vest 50% on each July 1, 2014 and 2015. As of September 30, 2014, all but 6,000 contingent share awards have been earned. The Corporation recorded share-based payment expense of \$159 thousand and \$876 thousand in relation to the issuance of 410,000 shares at the price of CAD\$3.00 per common share.

For the three and nine months ended September 30, 2014, the Corporation has recorded total share-based payment expense for restricted share awards of \$174 thousand and \$921 thousand, respectively (September 30, 2013 - \$15 thousand and \$486 thousand, respectively).

Expenses associated with restricted share awards are recorded with an offset to share capital of the Corporation.

Restricted Cash Bonus Program

In June 2012 the Corporation established a Restricted Cash Bonus Program consisting of two cash settled incentives awarded in bonus units. The first incentive is the Full Value Based Cash Bonus ("**FVBCB**") with the cash settlement value of a bonus unit equal to the current market price of a common share of the Corporation on specific vesting dates. The second incentive is the Appreciation Based Cash Bonus ("**ABCB**") which is settled in cash when an awardee makes a call on vested bonus units with the value of the award calculated as the difference between the current market price of a common share of the Corporation at call date and the original grant price per bonus unit. The program does not grant any entitlement to common shares or other equity interest in the Corporation.

The FVBCB incentive awards vest in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The fair value of FVBCB awards were estimated considering forfeiture rates of 5% and 10% respectively for the second and third year of the award. The estimated FVBCB liability is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated FVBCB liability at September 30, 2014 was \$0.2 million (December 31, 2013 - \$0.4 million).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each of January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued

at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at September 30, 2014 was \$0.1 million (December 31, 2013 - \$0.2 million).

Grant Date	FVBCB Units	ABCB Units	ABCB Units			
			Grant Price \$CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	41,667	145,000	4.80	108,750	June 4, 2017	2.7
Sept. 4, 2012	3,333	10,000	5.65	7,500	Sept. 4, 2017	2.9
Oct. 5, 2012	6,667	30,000	5.63	22,500	Oct. 5, 2017	3.0
Dec. 1, 2012	1,200	3,600	4.80	2,700	Dec. 1, 2017	3.2
Dec. 24, 2012	100,000	180,000	3.50	90,000	Dec. 24, 2018	4.2
	152,867	368,600		231,450		

For the three and nine months ended September 30, 2014, the Corporation recorded restricted cash bonus expense of (\$219) thousand and (\$163) thousand, respectively, compared to \$16 thousand and \$186 thousand, respectively, for the same periods in 2013.

Dividends, interest income, other income and interest expense

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(US\$000's)	2014	2013	2014	2013
Income other		(4)		(4)
Dividend income		(5)		(16)
Interest income ⁽¹⁾	(978)	-	(978)	(12)
Interest expense – short term notes ⁽¹⁾	434		434	
Interest expense – long term debt ⁽²⁾	1,529	-	3,808	-
Interest expense – convertible debentures ⁽²⁾	795	788	2,347	2,349
	1,780	779	5,611	2,317

⁽¹⁾ Interest income charged to Bahar Energy includes interest expense on short term notes plus approximately \$0.5 million in third party professional services incurred to close the Loan Agreement to fund the Baghlan Default Amount.

⁽²⁾ Interest expense includes accretion of debentures, coupon interest and amortization of transaction costs.

Change in fair value of derivative liability

For the three and nine months ended September 30, 2014, the Corporation recorded gains of \$0.5 million and \$1 million compared to gains of \$0.3 million and \$2 million, respectively, for the same periods in 2013. The changes result from the fair value measurement of the derivative liability associated with the debentures convertible option.

CASH FLOW ANALYSIS

The Corporation's cash and cash equivalents at September 30, 2014 were \$2.2 million, a decrease of \$0.9 million from \$3.1 million at December 31, 2013. The Corporation's primary source of funds came from operations, the \$16.5 million drawdown on the subordinate loan agreement and the \$25 million advanced under the senior long term loan agreement. Cash and cash equivalents were primarily used to fund \$10.8 million of the Corporation's share of Bahar Energy's 2013 and 2014 Annual Work Program and Budget deficit cash flows, Baghlan's Default Amount of \$16.5 million, debt service, corporate expenses and working capital.

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 20,048,977 common shares and 1,875,000 share options outstanding and no preferred shares outstanding.

RISK FACTORS

The following abbreviated “Risk Factors” reflect those risks and uncertainties specific to the Bahar Project and are summarized from the more detailed Risk Factor assessment disclosed in the Corporation’s Annual Information Form for the year ended December 31, 2013 available on SEDAR, www.sedar.com.

Rehabilitation, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of a project or the Corporation depends on its ability to find, acquire, license, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation’s reserves will depend not only on its ability to exploit and develop any properties it may have from time to time, but also on its ability to select, acquire and rehabilitate suitable producing properties or prospects. No assurance can be given that the Corporation will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation. It is project specific and at times it is difficult to project the costs of implementing or the success of exploration, rehabilitation or development drilling programs due to the inherent uncertainties of drilling in unknown formations, the uncertainty of the condition of existing well bores, the costs associated with encountering various drilling conditions such as over pressurized geological zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and natural gas exploration or development may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include but are not limited to delays in obtaining governmental approvals or consents, shut ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal oilfield operating conditions cannot be eliminated and can be expected to adversely affect revenue, cash flow and financial condition levels to varying degrees.

Oil and natural gas exploration, development, rehabilitation and production operations are subject to all the risks and hazards typically associated with such operations, including but not limited to hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks generally insurable. The Corporation will maintain liability insurance in an amount that it considers consistent with industry practice, however, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development, rehabilitation and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of

reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its financial condition.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the development, rehabilitation, production and acquisition of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing or cash generated by operations will be sufficient or available to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capital expenditures. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition and its results of operations.

Additional Financing Requirements and Dilution of Investment

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

Commodity Prices

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

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

In addition, third party financing alternatives available to the Corporation may in part be determined by the Corporation's oil and gas reserves that form its borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the credit available to the Corporation which could require that a portion, or all, of any potential debt of the Corporation be repaid. The Corporation has reduced this risk by not carrying any bank debt at this time.

Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market any oil and natural gas it discovers or acquires may depend upon its ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of any reserves it establishes to pipelines and processing facilities and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of any reserves which the Corporation may establish. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in any net production revenue of the Corporation causing a reduction in its oil and gas acquisition, development, rehabilitation and exploration activities.

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to the markets, value of refined products, supply/demand balance, and other contractual terms. In respect of the Bahar Project, sales of natural gas will be governed by the Bahar Gas Sales Agreement for the next five years. The price of natural gas sold from the Bahar PSA is fixed until October 2015 at \$3.96 per mcf. The price of natural gas is then determined by negotiation between buyers and sellers.

Recent gas negotiations continue to be influenced by increasing gas exports from Azerbaijan to Russia, Turkey and throughout the region. Also, negotiations are progressing to export Azerbaijan gas to Europe (Vienna) via the proposed TANAP and Nabucco-West pipelines. These new export routes could dramatically increase the gas price realizations in the region in the next five years.

Project Risks

The Corporation will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel services;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- failure of aging infrastructure from former operations
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labor;

- the regulation of the oil and natural gas industry by various levels of government and governmental agencies; and
- industry partner conflicts of interest.

As a result of the foregoing factors, the Corporation may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Availability of and Access to Drilling and Related Equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling, recompletion and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration, rehabilitation and development activities and affect the Corporation's results of operations. If the demand for, and wage rates of, qualified rig crews and other personnel rise, then the oil and gas industry and the Corporation may experience shortages of qualified personnel to operate drilling rigs and to conduct other work. This may delay the Corporation's exploration, rehabilitation, development and production operations and may adversely affect the Corporation and its results of operations. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be limited in its ability to direct or control the operations.

Risk of Foreign Operations

The Corporation's investment in oil and natural gas properties is currently located in Azerbaijan. As such, the Corporation is subject to political, economic, and other uncertainties, including, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty and tax increases and other risks arising out of foreign governmental sovereignty over areas in which the Corporation's operations are conducted, as well as the risks of loss due to civil strife, acts of war, acts of terrorism, guerrilla activities and insurrections. In the event of a dispute arising in connection with the Corporation's operations outside of the United States, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of the United States or enforcing judgments from the United States in other jurisdictions. The Corporation may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Corporation's exploration, development and production activities outside of the United States could be substantially impacted by factors beyond the Corporation's control, any of which could have a material impact on the Corporation.

The Corporation's operations may be adversely affected by changes in governmental policies and legislation or social instability and other factors which are not within control of the Corporation including, among other things, a change in crude oil or natural gas pricing policy, the actions of national labor unions, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, changes in taxation policies, economic sanctions and the imposition of specific drilling obligations and the development and abandonment of oil or natural gas fields.

The Corporation's operations and expenditures are to some extent paid in foreign currencies. As a result, the Corporation is exposed to market risks resulting from fluctuations in foreign currency exchange rates. A material increase or drop in the value of any such foreign currency could result in a material adverse effect on the Corporation's cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Azerbaijan to foreign entities. However, there can be no assurance that restrictions on repatriation of capital or distributions of earnings from Azerbaijan will not be imposed in the future.

The Corporation is not currently using exchange rate derivatives to manage exchange rate risks. In addition, the Corporation's results will be reported in United States Dollars and any foreign currency denominated monetary balances could result in gains and losses that may increase the variability of earnings.

Risk Factors Relating to Operations in Azerbaijan

Beyond the risks inherent in the oil and natural gas industry, the Corporation is subject to additional risks resulting from doing business in Azerbaijan. While the Corporation will attempt to reduce many of these risks through agreements with the Government of Azerbaijan and others, no assurance can be given that such risks have been mitigated. The risks include matters arising from the evolving laws and policies of Azerbaijan, the imposition of special taxes or similar charges, oil export or pipeline restrictions, foreign exchange fluctuations and currency controls, the unenforceability of contractual rights or the taking of property without fair compensation, related party transactions, restrictions on the use of expatriates in operations and other matters. In addition, corruption in Azerbaijan is pervasive at many levels which expose foreign companies like the Corporation to a number of financial and lease risks, all of which are beyond the control of the Corporation.

Regulatory Regime

The Corporation bears the risk that a change of government could occur and a new government may void the contracts, laws and regulations that the Corporation is relying upon for the exploration, rehabilitation, development and production of oil and natural gas and operations relating thereto. Regulations with respect to exploration and production operations may be revised at any time. There can be no assurance that any such regulatory enactments will not have a materially adverse effect on the operations or the revenues generated in Azerbaijan.

Legal Risks

Laws relating to corporate law, tax law, customs law and currency and banking legislation are subject to modifications or revision by Azerbaijan. Noncompliance may have consequences which are out of proportion to the severity of the noncompliance. Contracts may be susceptible to conflicting interpretations, revision or cancellation and legal redress may be uncertain, delayed or unavailable. It is possible that Azerbaijan may make changes to laws, decrees, rules or regulations which may restrict the rights or benefits accruing to the Corporation or which may increase its financial obligations.

Regional Risk

Azerbaijan is located in a region that has, at times, been politically unstable. Regional wars or other forms of instability in the region that may or may not directly involve Azerbaijan could have an adverse impact on Azerbaijan's ability to engage in international trade or the exploration, rehabilitation, development and production of oil and gas assets in Azerbaijan by the Corporation.

Reliance on Industry Partners

The Corporation relies on industry joint venture partners, including Baghlan, the other shareholder in Bahar Energy, and SOA, the other Contractor Party. The Corporation relies on these partners with respect to the evaluation, acquisition, development funding and timing of activities, as well as future production from the ERDPSA, and a failure or inability to perform by such partners could materially affect the prospects of the Corporation. The failure of either or both the other Bahar Energy shareholder or the other contractor party in the ERDPSA to contribute their share of project funding may materially impact the Corporation's and BEOC's ability to fully execute the Bahar project development plan.

Conflicting Interests with Partners

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

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

Expiration of Contract Terms

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

Under the ERDPSA, Bahar Energy will have the obligation to achieve, not later than three (3) years from the date of SOCAR's approval of the "Rehabilitation and Production Program", an average daily rate of petroleum production from the contract rehabilitation area during ninety (90) consecutive days 150% of the average 2008 production rates. Meeting the 150% production rate will result in the realization of the full 25 year term of the agreement for the Contract Rehabilitation Area. If Bahar Energy fails to meet the 150% production target within the three year timeframe, SOCAR shall have the right to terminate the ERDPSA in relation to the Contract Rehabilitation Area. Approval of the "Rehabilitation and Production Program" was received from SOCAR on June 22, 2011 establishing the start date for the three year period in which the production target must be met. Since Bahar Energy assumed control of the Bahar Project October 1, 2010, the 25 year term of the agreement for the Contract Rehabilitation Area will end by September 30, 2035.

Internal Controls

Effective internal controls over financial reporting are necessary for the Corporation to provide reliable financial reports and to help prevent fraud. While, the Corporation undertakes a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Corporation cannot be certain that such measures will ensure that the Corporation will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls either recommended by the Corporation or resulting from material weaknesses reported by the Corporation's independent auditors, or difficulties encountered in their implementation, could impact the Corporation's results of operations or impair the ability to meet its reporting obligations. If the Corporation or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Corporation's financial statements.

At the operational level, BEOC is an entity in which the Corporation has an indirect interest through its minority shareholder position in Bahar Energy. As such, the Corporation relies upon certain employees of BEOC for the accumulation and reporting of financial data in respect of the Corporation's interests in Azerbaijan, and on regular physical visits to Azerbaijan by the Corporation's management and Auditors to overview this activity. A major disruption in the flow of information from Bahar Energy and BEOC could impact the accuracy of financial reporting and management information.

The Corporation's ability to affect change within the Bahar Energy and BEOC organizations related to internal controls is related to the Corporation's ability to influence Bahar Energy's board of directors and shareholders. Functionally, unanimous consent of Bahar Energy's board of directors and shareholders is required for most actions. Of key importance is the ability of the Corporation to second personnel into key management positions in the BEOC organization, because even with unanimous board of director direction there is no guarantee that the recommended changes will be timely and effectively implemented at the BEOC level.

The inability to reach unanimous consent by the board or directors and shareholders of Bahar Energy addressing issues of importance to the Corporation, or the inability to second the Corporation's personnel into key management positions inside BEOC's organization, may materially impact the Corporation's ability to obtain timely and reliable financial reports and the ability to prevent fraud. The failure of Bahar Energy or BEOC to take corrective actions on a timely basis can have a material adverse effect on the Corporation's financial condition and results of operations.

Environmental Risks and Regulations

All phases of the oil and gas industry present environmental risks and are subject to environmental regulation pursuant to a variety of international conventions and local laws and regulations. Such legislation provides for, among other things, restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites to be operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of fines and penalties any of which may materially adversely affect the Corporation's financial condition and results of operations.

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

Insurance

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

Delays in Business Operations

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

Third Party Credit Risk

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

Governmental Regulation

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

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

Development of the Corporation's properties requires the approval by applicable regulatory authorities of the plans of the Corporation with respect to the drilling and development of such properties. A failure to obtain such approval on a timely basis or the imposition of material conditions by such authority in connection with the approval may materially affect the prospects of the Corporation.

Labor

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

Future Financing

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

Market Conditions

As a result of the weakened global economic situation and the recent volatility in oil, natural gas and other commodity prices, Greenfields may face reduced cash flow and restricted access to capital until these conditions stabilize. A prolonged period of adverse market conditions may affect Greenfields' financial results and impede Greenfields' ability to finance planned capital expenditures. In addition, a prolonged period of adverse market conditions may impede Greenfields' ability to refinance its credit facilities or arrange alternative financing for operations, capital expenditures and future acquisition opportunities. In each case, Greenfields' ability to maintain and grow its reserves and fully exploit its properties for the

benefit of the shareholders could be adversely affected. As well, given the recent volatility in commodity prices and in Canadian and global equity markets, the trading prices of the Common Shares in the future may be subject to considerable volatility. Future trading prices of Greenfields' Common Shares may be significantly below current levels.

Negative Operating Cash Flow

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk

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

The Corporation prepares annual and interim period capital expenditures budgets, which are monitored and updated as considered necessary to provide current cash flow estimates. To facilitate the capital expenditure program, the Corporation may raise debt and capital through the issuance of debt or equity securities. Additional financing may be required to complete planned capital programs.

The Corporation's financial liabilities for the periods ended September 30, 2014 and 2013 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture.

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

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

Future liquidity will depend on the timing of the drilling and recompletion programs. As favorable product pricing and production results are realized, we will evaluate the available market for additional drilling rigs to accelerate the drilling program as contemplated in the development program and summarized in our Annual Information Form for the fiscal year ended December 31, 2013 filed on May 2, 2014 and available on www.sedar.com.

The Corporation's joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Corporation's investment in the joint venture is dependent upon the joint venture's ability to complete the development of properties which includes meeting the related financing requirements. As at September 30, 2014 the Corporation's ability to continue as a going concern is dependent on management's ability to secure adequate financing, either

directly or indirectly at the project level. There is no certainty that such financing will be obtained on terms acceptable to management which may cast significant doubt about the Corporation's ability to continue as going concern.

On November 25, 2013, the Corporation secured additional funding through a \$25 million loan facility with the proceeds primarily dedicated to finance the Corporation's ongoing development operations for the Bahar Project over the next 12 to 18 months. At September 30, 2014 the Corporation has drawn the \$25 million of the loan facility to fund project expenditures and corporate obligations.

The Corporation has a \$10 million loan commitment to Bahar Energy for the funding of deficit cash flows associated with the 2014 Bahar Annual Work Program and Budget, which is subject to change. See Note 16 – "Commitments and Contingencies" to the unaudited consolidated Financial Statements for the period ended September 30, 2014.

Under the ERDPSA, Bahar Energy, through the operating company of the project, had a contractual obligation to increase the average daily production rate for the Bahar Project to 6,944 boe/d and to maintain that rate over a consecutive 90 day period (TPR1). On January 31, 2014, BEOC informed SOCAR that they had maintained an average rate of 7,081 boe/d for the previous 92 consecutive days meeting the TPR1 requirement in accordance with the ERDPSA. Meeting the TPR1 requirement secures for the Contractor Parties in the ERDPSA the rights under the ERDPSA to the full twenty-five (25) year development and production period.

On April 17, 2014, BEOC informed SOCAR that TPR2, as required under the ERDPSA, was achieved on March 31, 2014. TPR2 refers to Target Production Rate 2 whereby BEOC must maintain a daily production rate for 30 consecutive days equal to 2 times the average 2008 production rate, that target rate being 9,258 boe/d. With that obligation met, SOA, with a 20% interest in the Bahar project, was obligated to begin paying its share of project costs April 1, 2014. The repayment of Bahar Energy for the carry ("Carry 1") of SOA's share of expenditures since the effective date through March 31, 2014 began at the same time with amounts due currently being recouped from SOA's share of petroleum revenues attributable to operating and capital cost recovery. SOA, however, has failed to meet its obligation to fund the 20% share of Bahar project expenditures from the April 1, 2014 effective date.

Capital structure

<i>(US\$000's)</i>	September 30, 2014	December 31, 2013
Working capital ⁽¹⁾	3,537	1,734
Long term loan, convertible debt and shareholders' equity	63,307	46,924
Ratios of working capital to long term loan, convertible debt and shareholders' equity ⁽²⁾	6%	4%

(1) Working capital, presented here, is current assets net of current liabilities.

(2) Long term loan and convertible debt are combined with shareholder's equity due to the Corporation's right to settle debt by issuing shares.

Off-balance sheet arrangements

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

Related party transactions

A detailed discussion of related party transactions is included in Note 4 to the Unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014.

Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of September 30, 2014:

<i>(US\$000's)</i>	2014	2015	Thereafter
Operating leases ⁽¹⁾	21	83	-
Short term note payable – interest ⁽²⁾	512	1,053	-
Long term loan – interest payments ⁽³⁾	1,084	4,300	-
Debentures – interest payments ⁽⁴⁾	953	1,905	2,858
	2,570	7,341	2,858

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

⁽²⁾ Interest on the Short term note payable has a maturity date of June 30, 2018. However, the Corporation anticipates this loan will be repaid during 2015 with proceeds received from the repayment of the Short Term Notes Receivable from Related Party eliminating the interest obligation over the remaining term of the loan.

⁽³⁾ Represents interest on \$25 million drawn down of the available \$25 million as at September 30, 2014 under the long term Loan Agreement.

⁽⁴⁾ The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the September 30, 2014 exchange rate of 1.1208 CAD/USD.

The commitments of the Corporation include a \$10 million loan commitment to Bahar Energy for the funding of the deficit cash flows associated with the 2014 Bahar Annual Work Program and Budget (“WP&B”), which is subject to change. As of September 30, 2014 the Corporation has funded \$8.8 million and expects the remaining funding under this commitment to be minimal for the remainder of the year due to downward revisions to the WP&B.

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

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

Financial instruments

A summary of the Corporation's financial instruments is included in Note 17 to the Unaudited Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2014.

SUBSEQUENT EVENTS

Draw Down of Additional Default Amounts of Baghlan Energy Limited

On November 26, 2014, the Company drew an additional \$2.0 million of the \$21 million available Loan facility to enable Greenfields Petroleum International Company Ltd. ("**GPIC**"), a wholly-owned subsidiary of the Company, to fund further defaulted obligations of Baghlan Energy Limited ("**Baghlan**"), the other shareholder of Bahar Energy Limited. With the additional drawdown of the \$2.0 million, total funding by GPIC of Baghlan default obligations is now \$18.5 million. By funding Baghlan's defaulted obligations, GPIC provides protection to the interest of Bahar Energy in the ERDPSA and continues to ensure the Bahar Project has adequate working capital for operations. All transaction and financing costs resulting from using loan facility funds are subject to reimbursement by the defaulting partner. GPIC expects the remaining balance of the loan facility will also be drawn down to address additional Baghlan funding defaults. (See *Defaulting Shareholder paragraph in Note 7 – Investment in Joint Venture* to the Unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2014.)

ABBREVIATIONS

<u>Abbreviation</u>	<u>Description</u>
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