GREENFIELDS PETROLEUM CORPORATION

Condensed Consolidated Financial Statements

(Unaudited)

June 30, 2016

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited, US$000's

	Notes	As at June 30, 2016	As at December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents		428	100
Restricted cash	4	6,000	-
Accounts receivable related party	5	205	416
Short term loans receivable related party	6	28,369	26,884
Other receivables		-	6
Prepaid expenses and deposits		48	39
		35,050	27,445
Non-Current Assets			
Investment in joint venture	7	62,728	62,077
Property and equipment		-	1
		97,778	89,523
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	8	11,401	6,923
Short term loan	9	34,000	27,000
		45,401	33,923
Non-Current Liabilities			
Long term loan	10	25,515	24,269
Convertible debentures	11	16,792	15,132
		42,307	39,401
Shareholders' Equity	12		
Common shares		22	22
Paid in capital		76,935	76,935
Share-based payments reserve	13	5,490	5,466
Deficit		(72,377)	(66,224)
Total Shareholders' Equity		10,070	16,199
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 16)		97,778	89,523

The accompanying notes are an integral part of these condensed consolidated financial statements

(signed) "John W. Harkins"
John W. Harkins
Director

(signed) "Gerald F. Clark"
Gerald F. Clark
Director

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Unaudited, US$000's except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Management service fees	275	470	609	807
Expenses				
Administrative	994	1,436	2,044	2,619
Depreciation and amortization	-	12	1	32
	994	1,448	2,045	2,651
Loss from operating activities	(719)	(978)	(1,436)	(1,844)
Income on investment in joint venture *(Note 7)*	394	481	651	729
Interest income *(Note 14)*	732	868	1,465	1,594
Interest expense *(Note 14)*	(3,030)	(3,110)	(5,731)	(6,028)
Foreign exchange gain(loss)	72	(263)	(1,102)	1,176
Change in fair value of derivative liability *(Note 11)*	-	7	-	27
Loss before income taxes	(2,551)	(2,995)	(6,153)	(4,346)
Total comprehensive loss	(2,551)	(2,995)	(6,153)	(4,346)
Per share				
Loss per share, basic and diluted *(Note 12)*	($0.12)	($0.14)	($0.28)	($0.21)

The accompanying notes are an integral part of these condensed consolidated financial statements

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited, US$000's

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Common shares *(Note 12)*		
Balance, beginning of period	22	20
Issuance of common shares	-	2
Balance, end of period	22	22
Paid in capital		
Balance, beginning of period	76,935	74,912
Shares issued pursuant to private placement	-	1,798
Repurchase of common shares	-	(3)
Share-based payments	-	227
Balance, end of period	76,935	76,934
Share-based payments reserve *(Note 13)*		
Balance, beginning of period	5,466	5,263
Share-based payments	24	97
Balance, end of period	5,490	5,360
Deficit		
Balance, beginning of period	(66,224)	(58,700)
Loss for the period	(6,153)	(4,346)
Balance, end of period	(72,377)	(63,046)
Total Shareholders' Equity	10,070	19,270

The accompanying notes are an integral part of these condensed consolidated financial statements

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited, US$000's

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Activities				
Loss before income taxes	(2,551)	(2,995)	(6,153)	(4,346)
Items not affecting cash:				
Share-based compensation *(Note 13)*	10	148	24	276
Depreciation and amortization	-	12	1	32
Income on investment in joint venture *(Note 7)*	(394)	(481)	(651)	(729)
Interest income *(Note 14)*	(732)	(868)	(1,465)	(1,594)
Interest expense *(Note 14)*	3,030	3,110	5,731	6,028
Unrealized foreign exchange (gain)loss	(73)	264	1,102	(1,176)
Change in fair value of derivative liability *(Note 11)*	-	(7)	-	(27)
Cash used in operating activities before changes in non-cash working capital	(710)	(817)	(1,411)	(1,536)
Change in non-cash operating working capital *(Note 15)*	232	1,512	741	732
Cash From (Used) in Operating Activities	(478)	695	(670)	(804)
Financing Activities				
Proceeds from issue of common shares	-	-	-	1,800
Proceeds from short term loans *(Note 9)*	-	2,000	7,000	2,000
Proceeds from long term loans, net of structuring fees	-	-	-	2,342
Cash interest paid on convertible debentures and loans	-	(50)	-	(1,017)
Repurchase of common shares	-	-	-	(3)
Cash From Financing Activities	-	1,950	7,000	5,122
Investing Activities				
Restricted cash	-	-	(6,000)	-
Investment in joint venture *(Note 7)*	-	(667)	-	(667)
Short term loans to related party *(Note 6)*	-	(1,333)	-	(3,676)
Cash Used in Investing Activities	-	(2,000)	(6,000)	(4,343)
Effect of exchange rates on changes on cash	-	-	(2)	(1)
Increase (Decrease) in Cash and Cash Equivalents	(478)	645	328	(26)
Cash and Cash Equivalents, beginning of period	906	65	100	736
Cash and Cash Equivalents, end of period	428	710	428	710

The accompanying notes are an integral part of these condensed consolidated financial statements

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation ("**Greenfields**" or the "**Company**"), incorporated in the Cayman Islands, 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 head office of the Company is located at 211 Highland Cross Drive, Suite 250, Houston, Texas, 77073, U.S.A., and the registered office is located at 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The Company's common shares and convertible debentures are listed on the Toronto's TSX Venture Exchange ("**TSXV**") under the trading symbols "GNF" and "GNF.DB", respectively.

The Company owns 33.33% interest in Bahar Energy Limited ("**Bahar Energy**" or "**BEL**" or "**Joint Venture**"), 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 consists of the Contract Rehabilitation Area ("**Contract Rehabilitation Area**") including the Bahar Gas Field and the Gum Deniz Oil Field and the Exploration Area ("**Exploration Area**"). The remaining 66.67% interest in Bahar Energy is owned by Baghlan Group Limited (in liquidation) ("**Baghlan**"). Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the "**Contractors** or **Contractor Parties**"). Bahar Energy formed Bahar Energy Operating Company Limited ("**BEOC**") for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

Acquisition and Restructuring Transaction

On March 7, 2016 the Company, through its wholly-owned subsidiary, Greenfields Petroleum International Company Ltd. ("**GPIC**"), entered into a share purchase agreement with Baghlan Group Limited (in liquidation) and its liquidator, as agent for and on behalf of Baghlan (the "**Liquidator**"), pursuant to which, GPIC agreed to purchase Baghlan's 66.67% interest (the "**Interest**") in BEL and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan (the "**Acquisition**"). As an event subsequent to the six months ended June 30, 2016, the Acquisition was successfully completed on August 9, 2016. The aggregate consideration paid by GPIC for the Acquisition included a cash payment of $6.0 million, which had previously been placed into escrow, and a release and discharge of an estimated $60.3 million of liabilities, claims and demands in relation to certain default loan amounts and any and all other obligations, liabilities, claims or demands of any kind owed to BEL, BEOC and/or Greenfields by Baghlan. Upon completion of the Acquisition, BEL became a wholly-owned subsidiary of GPIC. See also *Note 19 – Subsequent Events*.

In order to fund the Acquisition, the Company agreed to restructure its debt and, in that regard, on March 4, 2016 the Company signed the fifth amending agreement (the "**Fifth Amending Agreement**") to the loan agreement dated November 25, 2013 (the "**Loan Agreement**") with its lenders under the Loan Agreement (the "**Lenders**"). The Fifth Amending Agreement provided for, among other things: (i) additional funding in the aggregate amount of $7.0 million to satisfy the purchase price in respect of the Acquisition and for working capital purposes; and (ii) an extension of the maturity date under the Loan Agreement from March 15, 2016 to May 16, 2016 in order to facilitate the completion of the restructuring transaction described below. Subsequent to May 16, 2016, the Company signed successive amending agreements to further extend the loan maturity date until March 31, 2018. See also *Note 19 – Subsequent Events*.

In connection with the Fifth Amending Agreement, the Company agreed to: (i) obtain the approval of holders ("**Debentureholders**") of the 9.00% convertible unsecured subordinated debentures due May 31, 2017 (the "**Debentures**") for the conversion (the "**Debenture Conversion**") of the CAD$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.1 million common shares in the capital of the Company ("**Common Shares**"); (ii) issue, in connection with the completion of the restructuring, up to an aggregate of 2,394,000 Common Shares for every $1,000,000 of principal due to the Lenders under the Loan Agreement; and (iii) issue, in connection with the completion of the restructuring, an equivalent number of Common Share purchase warrants ("**Warrants"**) to the Lenders (collectively, the "**Restructuring Transaction**"). As of June 30, 2016, the aggregate principal amount and interest due to the Lenders was $40.3 million.

On August 18, 2016 the Debenture Conversion was approved by the Debentureholders. The Debentures were delisted from the TSX Venture Exchange (the "**TSXV**") on August 25, 2016 and the Debenture Conversion was completed on August 26, 2016 with an aggregate of 33,143,825 common shares issued to former Debentureholders.

On April 12, 2016 the Company entered into a definitive agreement ("**Definitive Agreement**") with Heaney Assets Corporation ("**Heaney**") to settle all amounts outstanding under the Subordinated Revolving Loan Agreement dated June 27, 2014, as amended, with an original maturity date of June 30, 2018. Under the terms of the Definitive Agreement, Greenfields agreed to issue 11,500,000 common shares of the Company to Heaney in full satisfaction of all amounts outstanding under the loan agreement with Heaney, including principal in the amount of $20,834,705 and accrued interest. See also *Note 10 – Long Term Loan* and *Note 19 – Subsequent Events*.

The issuance of the Common Shares to Heaney was conditional upon, among other things, receipt of approval from the shareholders of Greenfields to increase the authorized share capital of the Company, and approval of the TSXV, which were obtained. In addition to the Common Shares to be issued to Heaney, Greenfields agreed to pay an agent a success fee for negotiating the terms of the Definitive Agreement. The success fee is comprised of a cash payment of $1,000,000 and the issuance of 500,000 Common Shares to the agent upon the successful closing of the transactions contemplated by the Definitive Agreement. The Company anticipates that the issuance of 12,000,000 common shares to Heaney and the agent will take place in September 2016.

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**"). The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments (convertible debentures) and share-based compensation transactions which are measured at fair value.

The presentation and functional currency of the Company is the United States dollar ("**USD**") and all values are presented in thousands of US dollars except where otherwise indicated.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2015 prepared in accordance with *International Financial Reporting Standards* ("**IFRS**") as issued by the *International Accounting Standards Board ("**IASB**")*. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016 which details are discussed in Note 3.

These condensed consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on August 26, 2016.

The Company's joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company'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. For the three and six months ended June 30, 2016 the Company incurred a loss of $2.6 million and $6.2 million, respectively (June 30, 2015 – loss of $3.0 million and $4.3 million, respectively) and has an accumulated deficit of $72.4 million as at the same date. In addition, the Company has negative working capital balance of approximately $10.4 million as at June 30, 2016. Consequently, the Company's ability to continue as a going concern is dependent on management's ability to obtain additional funding, to collect amounts due the Company from third parties, to meet ongoing debt obligations and to ultimately achieve profitable operations.

As at June 30, 2016, the Company had raised additional funds to complete the acquisition of 66.67% interest in BEL, restructure debt obligations with its lenders and for working capital purposes. The Acquisition and Restructuring Transaction triples the reserve base of the Company, significantly reduces debt obligations, but results in a substantial increase in the common shares outstanding. The Company will continue to seek funding sources to provide working capital for the Bahar project and corporate purposes. The Company will also seek borrowing opportunities to replace its senior debt with a lower financing cost facility. Should market conditions improve, the Company will also evaluate the potential for equity placement to replace some or all of its debt obligations.

The Company's ability to continue as a going concern depends on the Company being successful in raising additional capital through debt financing or issuance of equity on favorable terms. Without access to additional funding in 2016 and beyond, there is significant doubt that the Company will be able to continue as a going concern.

These condensed consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

The Company has not adopted new IFRS standards for the six month period ended June 30, 2016. However, the following new standards are being evaluated to determine its potential impact on the Company's consolidated financial statements.

IFRS 9 "Financial Instruments"

The IASB issued IFRS 9 *Financial Instruments* to replace IAS 39 *Financial Instruments: Recognition and Measurement,* which includes a principle-based approach for classification and measurement of financial assets, a single expected loss impairment model and a substantially- reformed approach to hedge accounting. The standard is effective for the Company for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014 the IASB published IFRS 15 *Revenue from Contracts with Customers* to replace IAS 18 *Revenue*, which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted.

IFRS 16 "Leases"

In January 2016, the IASB issued the complete IFRS 16 *Leases* which replaces IAS 17, *Leases*. The standard is effective for annual periods beginning on or after January 1, 2019 and early adoption is permitted. Under IFRS 16, a single recognition and measurement model will apply for lessees and will require recognition of assets and liabilities for most leases.

4. RESTRICTED CASH

At June 30, 2016 the Company had restricted cash of $6.0 million (December 31, 2015 - $nil). This balance consists of funds maintained in an escrow account for the purposes of settling purchase price obligations in respect of the Acquisition. See also *Note 1 – Incorporation and Nature of Operations* and *Note 9 - Short Term Loan*.

5. ACCOUNTS RECEIVABLE RELATED PARTY

At June 30, 2016 the Company had a balance of $0.2 million (December 31, 2015 - $0.4 million) in accounts receivable due from Bahar Energy and BEOC. Balances due consist of charges to BEOC for management, administrative and technical services provided under "Affiliate Service Orders" ("**ASO**") and Personnel Secondment Agreements, as well as charges to Bahar Energy for legal, finance and commercial support. Management does not believe balances due pose collection risk as these charges are associated with amounts invoiced in the normal course of business.

For the three and six months ended June 30, 2016, the Company recorded $0.3 million and $0.6 million, respectively (June 30, 2015 - $0.5 million and $0.8 million, respectively) in management service fees associated with services provided at cost to Bahar Energy and BEOC.

6. SHORT TERM LOANS RECEIVABLE RELATED PARTY

Funding the Default Loan Amounts of Baghlan Group Limited

At June 30, 2016 the Company had funded $22.1 million (December 31, 2015 - $22.1 million) to enable GPIC to cover defaulted loan funding obligations of Baghlan, the other shareholder of Bahar Energy.

With the funding of the defaulted obligations, GPIC provides protection for the interest of Bahar Energy in the ERDPSA and ensures the Bahar project has adequate working capital to fund the capital program. The defaulted loan obligation of Baghlan also includes an additional 4% interest penalty due the Company as a result of their failure to fund drawdown requests. With the August 9, 2016 completion of the Acquisition Transaction as described in *Note 1 – Incorporation and Nature of Operations*, the amounts due the Company will not be collected and will become part of the consideration paid for Baghlan's shares in BEL.

At June 30, 2016 the Company had a $28.4 million (December 31, 2015 - $26.9 million) loan receivable balance with Bahar Energy inclusive of $6.3 million (December 31, 2015 - $4.8 million) of financing costs and interest. At the closing of the Acquisition Transaction on August 9, 2016, the loan receivable, accrued financing costs and interest were extinguished.

7. INVESTMENT IN JOINT VENTURE

The Company owns a 33.33% interest (before the effect of Acquisition and Restructuring Transactions) in Bahar Energy, a joint venture that on December 22, 2009 entered into an ERDPSA with SOCAR and SOA in respect to the offshore block known as the Bahar Project, which consists of the Bahar gas field, the Gum Deniz oil field and the Bahar 2 exploration area. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA. Bahar Energy formed BEOC for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

Continuity of Investment in Joint Venture

US$000's	Investment in Joint Venture
At January 1, 2015	59,105
Funding	667
Share of Income from Joint Venture	729
At June 30, 2015	60,501
Funding	-
Share of Income from Joint Venture	1,576
At December 31, 2015	62,077
Share of Income from Joint Venture	651
At June 30, 2016	62,728

Bahar Energy, formed for the sole purpose of acquiring the rights to the ERDPSA, is a limited liability entity incorporated in the Jebel Ali Free Zone ("**JAFZA**") in Dubai, United Arab Emirates. Bahar Energy is currently owned 66.67% by Baghlan and 33.33% by GPIC (pre-Acquisition transaction). Bahar Energy is governed by its Articles of Association and the Bahar Shareholders Agreement ("**BSA**"). The registered office of Bahar Energy is LOB 15-514, P.O. Box 17870, Dubai, United Arab Emirates.

In accordance with the IFRS 11 guidance, the Company determined that the BSA represents a joint arrangement structured through Bahar Energy, a separate vehicle and entity in its own right, whose legal form creates a separation between the jointly controlling parties in the arrangement and the assets and liabilities of said vehicle. Bahar Energy meets the definition of a joint venture in which the Company has contractually agreed sharing of control therefore representing a joint venturer in the arrangement.

The BSA requires that all resolutions put to a vote of the shareholders be approved by unanimous vote. Similarly, all resolutions put to a vote of the directors must be approved by unanimous vote, except in the following instances:

(a) If the board cannot reach a unanimous decision to approve an annual work program and budget ("**WP&B**") consistent with the obligations of the ERDPSA, then the proposal capable of satisfying the minimum work and production obligations for the calendar year in question that receives the highest percentage vote shall be deemed approved by the board as the annual work program and budget.

(b) If the board cannot reach a unanimous decision regarding dividends, then the proposal receiving the highest percentage vote will prevail.

As of June 30, 2016, Bahar Energy funding needs are primarily covered by entitlement revenues, equity contributions and shareholder loans. To the extent that additional funds are required, the Bahar Energy shareholders have entered into the Common Terms Agreement ("**CTA**"), pursuant to which, each shareholder agrees to grant Bahar Energy a credit facility to be made available by way of annual loan agreements up to a specific amount based on the annual work plan approved by the directors. Future cash flows from operations under the ERDPSA would be used to repay shareholder loans.

Upon completion of the Acquisition Transaction on August 9, 2016, Bahar Energy became a wholly-owned subsidiary of GPIC. See also *Note 1 – Incorporation and Nature of Operations.*

The following tables summarize the financial information of the Joint Venture and reconcile the financial information to the carrying amount of the Company's interest in the Joint Venture as at June 30, 2016.

Bahar Energy Limited
Condensed Consolidated Statement of Financial Position as at
Unaudited, US$000's

Assets	June 30, 2016	December 31, 2015
Current Assets		
Cash and cash equivalents	30	1,218
Trade receivables [(1)]	9,109	8,365
Other receivable	30,639	26,130
Advances for operating activities	879	1,020
Inventories	1,422	1,575
	42,079	38,308
Non-Current Assets		
Advances for capital equipment	9	102
Property and equipment	157,615	159,505
	199,703	197,915
Current Liabilities		
Accounts payable and accrued liabilities	6,823	7,804
Payables to related parties	1,323	1,350
Short term notes payable [(2)]	28,368	26,883
	36,514	36,037
Net Assets	163,189	161,878
Company's share of net assets (33.33%)	54,391	53,954
Timing differences in Joint Venture funding	8,337	8,123
Carrying amount of Investment in Joint Venture	62,728	62,077

[(1)] Balance is net of an allowance for doubtful accounts of $1.3 million related to outstanding obligations due BEOC by a third party operator for services provided under a facilities sharing agreement terminated in second quarter 2015. BEOC, with SOCAR's assistance, has continued the efforts to collect past due amounts and is currently considering arbitration. Consequently, Bahar Energy has recorded a $1.3 million provision for doubtful accounts for the year ended December 31, 2015.
[(2)] Balance includes $22.1 million in Default Loan funding provided by GPIC to BEL plus $6.3 million in financing costs and interest. See also *Note 6 – Short Term Loans Receivable Related Party*.

Bahar Energy Limited
Condensed Consolidated Statement of Net Income
Unaudited, US$000's

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Petroleum and natural gas	8,095	10,369	15,494	19,049
Transportation and storage fees [1]	-	387	-	1,137
	8,095	10,756	15,494	20,186
Expenses				
Operating & administrative	4,980	6,352	9,748	12,598
Depreciation and amortization	1,932	2,964	3,792	5,401
	6,912	9,316	13,540	17,999
Income from operating activities	1,183	1,440	1,954	2,187
Net Income	1,183	1,440	1,954	2,187
Company's Share of Income of Joint Venture [2]	394	481	651	729

[1] During second quarter 2015, the facilities sharing agreement covering the transportation and storage services provided by BEOC to a third party operator was terminated.
[2] The Company's 33.33% interest in Bahar Energy Limited is disclosed as a Joint Venture and accounted for using the equity method.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	June 30, 2016	December 31, 2015
Trade accounts payable	212	192
Accrued liabilities [1]	11,189	6,731
	11,401	6,923

[1] The accrued liabilities at June 30, 2016 include $6.3 million (December 31, 2015 - $3.4 million) in deferred Short Term Loan interest accrual as well as $2.7 million (December 31, 2015 - $1.7 million) in convertible debentures interest accrual. See also *Note 9 – Short Term Loan and Note 11 – Convertible Debentures,* respectively.

9. SHORT TERM LOAN

On November 25, 2013 the Company secured a $25 million loan facility ("**Loan**") through an arm's length third party (the "**Lender**"). Pursuant to the terms of the Loan Agreement among the Lender, the Company, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors ("**Guarantors**"), the Company was entitled to draw up to an aggregate of $25 million in four tranches based upon the achievement of certain operational milestones.

The Loan incurred a cash structuring fee of 2.5% payable on each tranche advanced in accordance with the Loan Agreement, interest a rates between 15% and 20% per annum payable quarterly and was set to mature on December 31, 2015. The Loan is secured by first priority liens on the existing and future assets of the Company and the Guarantors. Also in consideration of the Loan, the Company agreed to issue to the Lender common shares of the Company as bonus shares (the "**Bonus Shares**") which were subject to resale restrictions expiring four months from the date of issuance. At December 31, 2014 the Company had drawn advances for a total of $25 million ($24.375 million net of 2.5% cash structuring fees) of the secured Loan and recorded transaction costs of $0.7 million. In addition, the Company issued 1,200,627 Bonus Shares to the Lender with a value of $3.5 million. The transaction costs and the value of Bonus Shares (together, the "**Debt Issue Costs**") are accreted over the life of the loan.

Subsequent to the November 25, 2013 Loan Agreement, the Company and the Lender have signed successive Amending Agreements in order to secure additional funding and the restructuring of outstanding interest payments due the Lender.

Per the Amending Agreement dated May 27, 2015, the Company secured additional funding of $2.0 million which was used in the Company's ongoing development operations in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field. This tranche incurred interest at a rate of 15% per annum and a commission of CAD $500,000. The principal, interest and the commission were due and payable by no later than December 31, 2015. The terms of the Amendment also allowed for the deferral until December 31, 2015 of a $1.1 million interest payment due July 1, 2015 and created the obligation for the Company to make three consecutive monthly payments of $50 thousand towards deferred interest during the period July through September 2015.

On March 4, 2016 the Company signed the Fifth Amending Agreement to the Loan Agreement and increased the total Loan commitment to $34.0 million which principal and respective accrued and unpaid interest were set to mature on May 16, 2016. The Fifth Amending Agreement provided for, among other things: (i) additional funding in the aggregate amount of $7.0 million to satisfy the purchase price in respect of the Acquisition and for working capital purposes; and (ii) an extension of the maturity date under the Loan Agreement from March 15, 2016 to May 16, 2016 in order to facilitate the completion of the Restructuring Transaction. The additional $7.0 million in funding bears interest at a rate of 15% per annum. At June 30, 2016, a total of $6.0 million from the Fifth Amending Agreement proceeds had been placed in an escrow pending the completion of the Acquisition Transaction. See also *Note 4 - Restricted Cash.*

In connection with the Fifth Amending Agreement, the Company agreed to: (i) obtain the approval of Debentureholders of the 9.00% convertible unsecured subordinated Debentures due May 31, 2017 for the Debenture Conversion of the CAD$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.1 million Common Shares in the capital of the Company; (ii) issue, in connection with the completion of the restructuring, up to an aggregate of 2,394,000 Common Shares for every $1,000,000 of principal due to the Lenders under the Loan Agreement; and (iii) issue, in connection with the completion of the restructuring, an equivalent number of Common Share purchase Warrants to the Lenders. As of June 30, 2016, the aggregate principal amount and interest due to the Lenders was $40.3 million.

Under the Fifth Amending Agreement all unpaid interest accrued as of December 31, 2015 regardless of the tranche with which it was associated, will bear interest at the rate of 17.04% until the maturity date of May 16, 2016. Subsequent to May 16, 2016, the Company has signed successive amending agreements to further extend the loan maturity date until March 31, 2018. As of the Ninth Amending Agreement effective August 19, 2016, the restructured debt will bear interest at a rate of 12% per annum until maturity. See also *Note 19 – Subsequent Events*.

At June 30, 2016 the Company had accrued interest in the amount of $6.3 million (December 31, 2015 - $3.4 million).

Carrying Value of Short Term Loan

US$000's	Carrying Value of Short Term Loan
At January 1, 2015	22,456
Amortization of debt issue costs	1,129
Advances (1)	2,000
At June 30, 2015	25,585
Amortization of debt issue costs	1,415
At December 31, 2015	27,000
Advances (2)	7,000
At June 30, 2016	34,000

(1) Represents additional advance per May 27, 2015 amendment to November 25, 2013 Loan Agreement.
(2) Represents additional advance per March 4, 2016 Fifth Amending Agreement to November 25, 2013 Loan Agreement. The Fifth Amending Agreement also extended the maturity of the loan to May, 16, 2016. Subsequent to May 16, 2016, the Company has signed successive amending agreements to further extend the loan maturity until August 31, 2016. See also *Note 19 - Subsequent Events*.

10. LONG TERM LOAN

On July 2, 2014 the Company announced the June 27, 2014 closing of a $21 million loan facility (the "**Loan-2**") with Heaney. At June 30, 2016, the Company had completed the drawdown of $20.8 million on Loan-2 (December 31, 2015 - $20.8 million). Pursuant to the terms of Loan-2, the Company was entitled to draw up to an aggregate of $21 million as needed for the purposes of funding obligations under the Bahar Energy Limited shareholders agreement to meet the capital needs of the Bahar Project. The Loan-2 incurred a 0.15% commitment fee and interest at a rate of 12% per annum accrued quarterly, both principal and accrued interest were originally set to mature on June 30, 2018.

On April 12, 2016 the Company entered into a Definitive Agreement with Heaney to settle all amounts outstanding under Loan-2. Under the terms of the Definitive Agreement, Greenfields agreed to issue 11,500,000 common shares of the Company to Heaney in full satisfaction of all amounts outstanding under Loan-2, including principal in the amount of $20,834,705 and accrued interest. In addition to the common shares to be issued to Heaney, Greenfields agreed to pay an agent a success fee for negotiating the terms of the Definitive Agreement. The success fee is comprised of a cash payment of $1,000,000 and the issuance of 500,000 common shares to the agent upon the successful closing of the transactions contemplated by the Definitive Agreement.

At June 30, 2016, the Company had a Long Term Loan balance of $25.5 million (December 31, 2015 - $24.3 million) which included $4.7 million of accrued interest expense (December 31, 2015 - $3.4 million).

11. CONVERTIBLE DEBENTURES

On May 30, 2012 the Company issued CAD$23.7 million of convertible unsecured subordinated Debentures for equivalent proceeds of USD$22.9 million. The Debentures 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 starting on November 30, 2012 and will mature and be repayable on May 31, 2017 (the "**Maturity Date**"). Each CAD$1,000 Debenture principal amount can 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 117 common shares of the Company. The redemption ratio results from conversion price (the "**Conversion Price**") of CAD$8.55 per common share of the Company.

The Debentures could not be redeemed by the Company prior to May 31, 2015. On or after June 1, 2015 and prior to the Maturity Date, the Debentures could be redeemed by the Company, in whole or in part, from time to time, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Company's sole option provided that the common share current market price on the date on which notice of redemption is given is not less than 125% of the Conversion Price (CAD$8.55) or CAD$10.69 per common share of the Company. The Company has the option to satisfy its obligations to repay the principal amount of the Debentures upon redemption or at maturity by issuing and delivering that number of freely tradable common shares obtained by dividing the principal amount of the Debentures by 95% of the common share current market price on the date fixed for redemption or maturity, as the case may be.

On June 30, 2015 the Company secured temporary relief from its May 31, 2015 $0.9 million interest payment as stipulated by the Indenture governing the Debentures by way of a waiver from the holders of more than 50% of the principal amount of the Debentures. The Company failed to make the interest payment due within 30 days of May 31, 2015, and such failure potentially became an Event of Default (as defined in the Indenture) on June 30, 2015, on which date, a majority of the holders of Debentures instructed the trustee under the Indenture to waive the Event of Default. Pursuant to the waiver, the May 31, 2015 interest payment was deferred until the earlier of: (i) December 30, 2015; and (ii) 15 business days after the receipt by GPIC of payment from Bahar Energy Limited of at least US$9.0 million towards the balance of Default Loans due.

As result of successive waivers from Debentureholders, at June 30, 2016, the Company deferred outstanding accrued interest payable until the earlier of; 30 days after the next November 30, 2016 interest payment date; and 15 business days (in Alberta, Canada) after the receipt by GPIC of payment from BEL of at least $9,000,000 due under the outstanding Default Loan Agreements which were entered between GPIC, as lender, and BEL. Per the Indenture, deferred interest payments accrued interest at 9.0% per annum.

In connection with the Restructuring Transaction, the Company agreed to obtain the approval of Debentureholders for the conversion of the CAD$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.1 million common shares in the capital of the Company. On August 18, 2016 the Debenture Conversion was approved by the Debentureholders. The Debentures were delisted from the TSXV on August 25, 2016 and the Debenture Conversion was completed on August 26, 2016 with an aggregate of 33,143,825 common shares issued to former Debentureholders. See also *Note 1 – Incorporation and Nature of Operations* and *Note 19 – Subsequent Events.*

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The following table summarizes the liability and derivative liability components of the convertible debentures at June 30, 2016:

	Financial Statement Components			
US$000's	Liability (1)	Derivative Liability (1)	Carrying Value	Principal Amount
Balance December 31, 2015	**15,132**	**-**	**15,132**	**17,143**
Accretion	687	-	687	
Foreign exchange loss (2)	973	-	973	1,094
Balance June 30, 2016	**16,792**	**-**	**16,792**	**18,237**

(1) On May 30, 2012 the Company issued CAD$23.725 million convertible debentures, equivalent to approximately USD$22.9 million. The balance of the liability and derivative liability are net of transaction costs of approximately USD$1.6 million; USD$1.2 million was allocated to the liability and USD$0.4 million related to the derivative liability was expensed.
(2) Represents foreign exchange loss incurred due to the change in USD/CAD exchange rate from 1.3840 at December 31, 2015 to 1.3009 at June 30, 2016.

The liability portion of the Debentures is measured at amortized cost and accreted up to the principal balance at maturity using an effective interest rate of 18.8 percent. The accretion and the interest paid are expensed as interest expense in the consolidated statement of net income (loss). The derivative financial liability is measured at fair value through profit or loss, with adjustments recorded in "changes in fair value of derivative liability".

The fair value of the derivative financial liability is determined using the Binomial valuation model with the following assumptions:

	June 30, 2016	December 31, 2015
Market price per common share – CAD$	0.30	0.285
Conversion price per common share – CAD$	8.55	8.55
Risk-free interest rate range	1.35%	1.35%
Expected life – years	0.92	1.42
Expected volatility	77.96%	67.31%
Shares issuable at conversion	2,775,825	2,775,825

12. SHAREHOLDER'S EQUITY

Authorized Share Capital (1)

Authorized share capital of the Company consists of 49,900,000 common shares and 100,000 preferred shares, each at US $.001 par value.

(1) An increase in the authorized share capital of the Company was approved by the shareholders on August 18, 2016. See *Note 1 – Incorporation and Nature of Operations* and *Note 19 – Subsequent Events*.

Common Shares

Each common share carries equal voting rights, is non-preferential and participates evenly in the event of a dividend payment or in the winding up of the Company.

Preferred Shares

The Board may issue Preferred Shares at any time and from time to time in one or more series. The Board has the authority to issue Preferred Shares in series and determine the price, number, designation, rights, privileges, restrictions and conditions, including dividend rights, conversion rights, and rights with respect to the distribution of assets in the event of the dissolution or winding up of the Corporation and preferential rights, of each series without further vote or action by shareholders.

There were no preferred shares issued and outstanding at June 30, 2016 and December 31, 2015.

Common shares continuity schedule:

Outstanding common shares *US$000's, except for share numbers*	Number of Common Shares	Amount
As at December 31, 2015	22,105,438	76,957
As at June 30, 2016	22,105,438	76,957

Reconciliation of inception-to-date issued and outstanding common shares

	June 30, 2016	December 31, 2015
Issued	22,219,810	22,219,810
Shares acquired by company	(125,405)	(125,405)
Shares re-issued after acquisition	11,033	11,033
Total Outstanding	22,105,438	22,105,438

Per Share Information

Per share loss *(US$000's, except for per share amounts)*	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Weighted average number of common shares outstanding	22,105,438	22,105,438	22,105,438	20,946,487
Loss for the period	(2,551)	(2,995)	(6,153)	(4,346)
Basic and diluted loss per share	($0.12)	($0.14)	($0.28)	($0.21)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options and convertible debentures is based on quoted market prices for the period that the equity instruments were outstanding. For the six months ended June 30, 2016, the 1,183,333 outstanding share options (June 30, 2015 – 1,666,250) and 2,775,825 common shares (June 30, 2015 – 2,775,825) issuable at conversion of debentures were excluded from calculating dilutive earnings per share as they were anti-dilutive.

Private Placement

On January 22, 2015 the Company completed a non-brokered private placement of 2,000,000 common shares of the Company at a price of CAD$1.11 per share (USD$0.90) for aggregate gross proceeds of $1.8 million.

Share Awards

On February 20, 2015 the Company issued an aggregate of 55,685 common shares of the Company at a deemed price of CAD$1.00 (USD$0.862) per common share, to certain directors of the Company in satisfaction of fees payable to such directors in the aggregate amount of CAD$55,685 (USD$48,000).

On February 23, 2015 the Company completed a grant of 6,000 common shares to an officer of the Company pursuant to a Contingent Restricted Share Grant Agreement dated September 23, 2013. The shares were valued at the closing price on the TSX Venture Exchange at February 23, 2015, that being CAD$0.89 (USD$0.72).

Acquisition of common shares

In February 2015 the Company acquired 5,224 common shares at an average fair market value of CAD$0.80 per share from certain employees as a result of share grants vesting. The Company's share grant agreement provides the opportunity for employees to pay cash or sell to the Company a number of shares equivalent to their statutory withholding tax amount due at vesting date in order to reimburse the Company for remitting the employees' withholding tax obligation to the US Internal Revenue Service. Furthermore, the Company is authorized to withhold from participants any amounts due either in cash or shares for any applicable taxes payable at the minimum statutory rate in respect of the share grant awards. Subsequent to its acquisition, these common shares were cancelled by the Company.

As at June 30, 2016 and December 31, 2015, the Company did not hold any common shares in treasury.

13. SHARE BASED PAYMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2016	2015	2016	2015
Share options	10	48	24	96
Share awards	-	100	-	180
Total share settled	10	148	24	276
Contingent share-based bonus [(1)]	17	-	12	-
Restricted cash bonus awards – cash settled [(1)]	2	43	2	30
Total share-based payments	29	191	38	306

[(1)] Amounts reflect obligations accrued for these awards during the referenced periods, not actual cash amounts paid out by the Company. See "*Restricted Share Awards*" and *"Restricted Cash Bonus Program"* below.

The share-based payments recorded by the Company are associated with share options, restricted share grants and share-based bonuses. Share-based payment expenses for the three and six months ended June 30, 2016 were $29 thousand and $38 thousand, respectively (June 30, 2015 - $191 thousand and $306 thousand, respectively).

(Unaudited) All tabular amounts are expressed in US$000's unless otherwise stated except for share and per share amounts

Share Options

The Company has a stock option plan that governs the granting of options to employees, officers and directors. All options issued by the Company permit the holder to purchase a specific number of common shares of the Company at the stated exercise price. The Company has not issued stock options that permit the recipient to receive a cash payment equal to the appreciated value in lieu of stock. As a provision of the Company's Stock Option Plan, the optionee may make the following election when exercising options at the discretion of the Compensation Committee:

> *When an optionee incurs a tax liability in connection with an option which is subject to tax withholding under applicable tax laws and the optionee is obligated to pay the Company the required withholding amount due, the optionee may satisfy the tax withholding obligation in two methods other than payment in cash; (i) by surrendering to the Company 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 Company withhold from the common shares to be issued upon exercise of the options the number of common shares having a market value equal to the tax amount required to be withheld.*

The fair value of each stock option granted was estimated on the date of grant using a valuation option pricing model with the following assumptions:

Risk-free interest rate range	0.5% - 2%
Expected life range	1.1 - 4.0 years
Expected volatility range	40% - 66%
Weighted average forfeiture rate	1.7%
Weighted average fair value	$1.81

Continuity of Stock Options

	June 30, 2016		December 31, 2015	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	1,187,083	2.27	1,796,250	5.88
Granted	-	-	400,000	0.35
Surrendered	-	-	(720,000)	6.79
Forfeited	(3,750)	3.25	(289,167)	10.77
Outstanding, end of period	1,183,333	2.26	1,187,083	2.27
Exercisable, end of period	929,583	2.02	757,083	2.30

On July 8, 2015 the Company granted options to acquire 400,000 common shares of the Company pursuant to its stock option plan. The options are exercisable at a Canadian dollar price of $0.35 per Common Share and will expire 15 months after July 8, 2015. A total of 252,500 options vested at grant date while the remaining 147,500 options were set to vest nine months after grant date.

On July 31, 2015 the holders of an aggregate of 720,000 share options of the Company voluntarily surrendered such options for nil consideration.

The exercise prices of the outstanding share options ranges from CAD$0.35 to CAD$6.50 per common share with all options expiring on various dates between years 2016 and 2020. The exercisable options as at June 30, 2016 have remaining contractual lives ranging from 0.3 to 4.2 years.

For the three and six months ended June 30, 2016, the Company recorded share options expense of $10 thousand and $24 thousand, respectively (June 30, 2015 - $48 thousand and $96 thousand, respectively). The share options expense is offset to the Company's share-based payment reserve.

Restricted Share Awards

In September and October 2013 the Company authorized the awards of 186,000 and 230,000 restricted shares, respectively, to certain officers and a director of the Company. The awards were 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.

A total of 410,000 shares were awarded upon the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar. These shares vested 50% on each of July 1, 2014 and 2015. For the three and six months ended June 30, 2016, the Company recorded share-based payment expense of $nil (June 30, 2015 - $100 thousand and $176 thousand, respectively) in relation to the issuance of 410,000 shares at the price of CAD$3.00 per common share.

On February 14, 2015 the Company completed the grant of 6,000 common shares to an officer of the Company upon the implementation of recommendations resulting from the downhole study for Bahar. The shares vested at grant date and were valued at the price of CAD$0.89 (USD$0.72) for a total share-based payment of $4 thousand.

For the three and six months ended June 30, 2016, the Company has recorded total share-based payment expense for restricted share awards of $nil (June 30, 2015 - $100 thousand and $180 thousand, respectively). Expenses associated with restricted share awards are recorded with an offset to share capital of the Company.

On January 12, 2015 the Company awarded the right to 500,490 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the company; or such earlier vesting date as determined by the board. Also at the option of the board, the contingent bonus may be settled by the Company in cash at vesting date, with the value of common share or share equivalent payment determined by the market closing price of the Company's common shares at such vesting date.

The contingent bonus had an estimated value of $103 thousand at the January 1, 2016 vesting date based on CAD$0.285 (USD$0.21) per common share. Since the Company has deferred settlement of the contingent bonus, as at June 30, 2016 the liability has been fair valued at $115 thousand based on the market closing price of CAD$0.30 (USD$0.23) per common share with adjustments recorded through profit and loss.

Restricted Cash Bonus Program

In June 2012 the Company 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

(Unaudited) All tabular amounts are expressed in US$000's unless otherwise stated except for share and per share amounts

Company 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 Company 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 Company.

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 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 June 30, 2016 was $185 thousand (December 31, 2015 - $184 thousand).

On January 20, 2015 the Company awarded 107,866 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 94,533 units vesting on January 1, 2015 (the "**Original Vesting Date**"). The deferral bonus units originally had a vesting date of January 1, 2016 (the "**Deferral Vesting Date**") and would be settled at the share price of the Company's common share on either the Original Vesting Date or the Deferral Vesting Date, whichever share price was higher. The Deferral vesting date for both awards has been further deferred until the first to occur of the following: January 1, 2017; the date of a change of control of the company; or such earlier Deferred Vesting Date as determined by the board.

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each 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 June 30, 2016 was $nil (December 31, 2015 - $nil).

The following table summarizes the terms of outstanding units awarded under the Restricted Cash Bonus Program:

Grant Date	FVBCB Units	ABCB Units	ABCB Units: Grant Price $CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	38,334	122,500	4.80	122,500	June 4, 2017	0.9
Sept. 4, 2012	3,333	10,000	5.65	10,000	June 4, 2017	1.2
Oct. 5, 2012	6,667	30,000	5.30	30,000	Oct. 5, 2017	1.3
Dec. 1, 2012	1,200	3,600	4.80	3,600	Dec. 1, 2017	1.4
Dec. 24, 2012	90,000	160,000	3.50	160,000	Dec. 24, 2018	2.5
Jan.1, 2015	107,866	-	-	-	-	-
	247,400	326,100		326,100		

For the three and six months ended June 30, 2016, the Company recorded restricted cash bonus expense of $2 thousand and $2 thousand, respectively (June 30, 2015 – $43 thousand and $30 thousand, respectively).

Share-based payments reserve

US$000's	Amount
Balance December 31, 2015	5,466
Stock options share-based payments	24
Balance June 30, 2016	5,490

14. INTEREST INCOME AND INTEREST EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2016	2015	2016	2015
Interest income [(1)]	732	868	1,465	1,594
Interest expense – short term loan [(2)]	(1,591)	(1,697)	(2,909)	(3,282)
Interest expense – convertible debentures [(3)]	(816)	(743)	(1,575)	(1,460)
Interest expense – long term loan	(623)	(670)	(1,247)	(1,286)
	(2,298)	(2,242)	(4,266)	(4,434)

[(1)] Interest income charged to Bahar Energy in connection with Default Loans. Includes transaction costs of $nil for the three and six months ended June 30, 2016 (June 30, 2015 - $127 thousand and $187 thousand, respectively). See *Note 6 - Short Term Loan Receivables Related Party.*

[(2)] Interest expense on short term loan includes interest and amortization of transaction costs. See *Note 9 - Short Term Loan* and *Note 19 - Subsequent Events*.

[(3)] Interest expense on convertible debentures includes accretion, coupon interest, amortization of transaction costs, and interest on defaulted payments. See *Note 11 – Convertible Debentures*.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital items related to operating activities:

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2016	2015	2016	2015
Receivables from related parties	69	1,108	210	1,193
Other receivable	11	(2)	6	11
Prepaid expenses and deposits	19	(198)	(9)	(88)
Accounts payable and accrued liabilities	133	604	534	(384)
	232	1,512	741	732

16. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of June 30, 2016:

US$000's	**2016** (1)	**2017** (1)	**Thereafter** (1)
Operating leases (2)	24	47	-
Short term loan – interest payments (3)	6,842	-	-
Short term loan (3)	34,000	-	-
Long term loan – interest (4)	-	-	9,681
Long term loan (4)	-	-	20,835
Debentures – interest payments (5)	3,412	821	-
Debentures (5)	-	18,237	-
	44,278	19,105	30,516

(1) This summary reflects the Company's contractual obligations before the effect of both Acquisition and Restructuring Transactions as described in *Note 1 – Incorporation and Nature of Operations.* See also *Note 19 - Subsequent Events*.

(2) The Company has extended its lease of office space for its corporate headquarters in the United States through December 2017.

(3) Represents principal and accrued interest on $34 million short term loan as at July 31, 2016. The Company signed the Fifth Amending Agreement to extend the maturity of the Loan until May 16, 2016. Subsequent to May 16, 2016, the Company has signed successive amending agreements to further extend the loan maturity until August 31, 2016. See *Note 9 - Short Term Loan* and *Note 19 - Subsequent Events*.

(4) Represents principal and accrued interest on long term loan with original maturity of June 30, 2018. See *Note 10 - Long Term Loan.*

(5) The Debentures mature on May 31, 2017. Principal and coupon interest payments (including interest on deferred coupon payments) are denominated in Canadian Dollars. The Company has the option to settle the Debentures by issuing common shares. As of June 30, 2016 the Company had obtained successive waivers from Debentureholders to further defer interest payments until November 30, 2016. The USD value of the principal and scheduled interest payments has been calculated at the June 30, 2016 exchange rate of 1.3009 USD/CAD. See *Note 11 – Convertible Debentures.*

The Company's commitments to fund the Bahar Project are based on the annual WP&B approved by the board of Bahar Energy. 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 serve 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 a Joint Operating Agreement to exercise day to day supervision and direction of all matters pertaining to the joint operations.

The 2016 WP&B for ERDPSA reflects a positive cash flow generated for the Bahar Project and therefore the Company has not made additional loan commitments for the year.

As a provision of the BSA, should a shareholder fail to meet its commitments to fund its share of the Bahar Energy's WP&B, that shareholder is deemed to be in default. In June 2014 Baghlan was declared in default with GPIC subsequently funding Baghlan's loan funding obligations to Bahar Energy. With the August 9, 2016 completion of the Acquisition Transaction as described in *Note 1 – Incorporation and Nature of Operations*, GPIC no longer has this obligation and all balances previously funded by the

Company will not be collected and will become part of the consideration paid for Baghlan's shares in BEL. *See Note 1 – Incorporation and Nature of Operations and Note 6 – Short Term Loans Receivable Related Party.*

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed to the following risks in respect of certain of the financial instruments held:

a) Credit risk

Credit risk is the risk of financial loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from subsidiaries and affiliates for services performed under certain administrative services agreements and from advances made under certain joint venture agreements.

The Company's current accounts receivable and short term loans receivable balances mainly consist of receivables from related parties as result of the funding of administrative expenses and costs in connection with Bahar Energy operations under the ERDPSA. The Company historically has not experienced any collection issues with its accounts receivable and all of the balances due are considered by management to be collectable at June 30, 2016. See *Note 5 – Accounts Receivable Related Party*. With the August 9, 2016 completion of the Acquisition Transaction as described in *Note 1 – Incorporation and Nature of Operations*, the amounts due the Company and represented below as "Short term loans receivable from related parties" will not be collected and will become part of the consideration paid for Baghlan's shares in BEL.

Cash and cash equivalents consist of bank deposits and short term money market investments held in major United States banks. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit rating and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper. Cash held in bank accounts are exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions.

The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

Credit Risk *US$000's*	June 30, 2016 [(1)]	December 31, 2015
Cash and cash equivalents	428	100
Restricted cash	6,000	-
Receivables from related parties	205	416
Short term loans receivable from related parties	28,369	26,884
Other receivable	-	6
	35,002	27,406

[(1)] Balances before the effect of Acquisition and Restructuring Transaction as described in *Note 1 – Incorporation and Nature of Operations*.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual conditions without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation. However, the Company's current cash balance of $0.4 million does not allow for meeting its current obligations, thereby requiring additional funding to continue providing working capital for the Bahar project and corporate purposes. The timing or likelihood of such funding is uncertain. See also *Note 2 – Basis of Presentation and Going Concern.*

The Company prepares annual and interim period expenditure budgets, which are regularly monitored and updated as considered necessary to provide current cash flow estimates related to project and corporate funding obligations. The Company may raise capital through debt and the issuance of shares to meet these funding requirements.

The Company's financial liabilities as at June 30, 2016 and December 31, 2015 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture. Payment terms on the Company's accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities at June 30, 2016:

Liquidity Risk (1)	June 30, 2016				December 31, 2015
US$000's	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities	2,360	-	-	2,360	1,799
Short term loan – interest	6,842	-	-	6,842	4,651
Short term loan	34,000	-	-	34,000	27,000
Long term loan – interest (2)	-	9,681	-	9,681	9,681
Long term loan (2)	-	20,835	-	20,835	20,835
Debentures - interest (3)	3,412	821	-	4,233	3,903
Debentures (3)	-	18,237	-	18,237	17,143
	46,614	49,574	-	96,188	85,012

(1) This summary reflects the Company's contractual obligations before the effect of both Acquisition and Restructuring Transactions as described in *Note 1 – Incorporation and Nature of Operations*. See also *Note 19 - Subsequent Events*.

(2) Represents principal and accrued interest on long term loan with original maturity date of June 30, 2018. See *Note 10 - Long Term Loan.*

(3) The Debentures mature on May 31, 2017. The Company has the option to settle the Debentures by issuing common shares. Principal and coupon interest payments are denominated in Canadian Dollars. The USD value of the principal and scheduled interest payments has been calculated at the June 30, 2016 exchange rate of 1.3009 USD/CAD. See *Note 11 - Convertible Debentures.*

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars.

At June 30, 2016 and December 31, 2015 the Company had no forward exchange contracts in place.

d) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are affected by the international economy that governs the level of supply and demand.

At June 30, 2016 and December 31, 2015, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company mitigates its exposure to interest rate changes by holding fixed rate debt.

At June 30, 2016 the sensitivity in net earnings for each one percent change in interest rates is not significant.

Fair value of financial instruments

The fair values of financial instruments as at June 30, 2016 and December 31, 2015 are disclosed below by financial instrument category as follows:

		June 30, 2016 [a]		December 31, 2015	
US$000's	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at FVTPL					
Cash and cash equivalents	1	428	428	100	100
Restricted Cash	-	6,000	6,000	-	-
Loans and receivables					
Receivables from related party [b]	-	205	205	416	416
Short term loans receivable related party		28,369	28,369	26,884	26,884
Other receivables	-	-	-	6	6
Other financial liabilities					
Accounts payable and accrued liabilities	-	11,100	11,100	6,635	6,635
Short term loan	-	34,000	34,000	27,000	27,000
Long term loan and interest payable		25,515	25,515	24,269	24,269
Convertible debentures	-	16,792	16,792	15,132	15,132
Liabilities at FVTPL					
Share based bonus	2	301	301	287	287

[a] Balances before the effect of Acquisition and Restructuring Transaction as described in *Note 1 – Incorporation and Nature of Operations*.

[b] Balances consist of receivables from Bahar Energy resulting from amounts invoiced on "Affiliate Service Orders" (**"ASO"**), Personnel Secondment Agreements and other direct legal, finance and commercial support.

Fair Value Hierarchy

Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or

liabilities.
Level 2 – Fair value measurement is based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.
Level 3 – Fair value measurement using inputs for the asset or liability that are not based on observable market data.

18. CAPITAL STRUCTURE AND MANAGEMENT

The Company considers its capital structure to include common share capital and working capital (a measurement defined as current assets less current liabilities). In order to maintain or adjust the capital structure, the Company may from time to time issue common shares or other securities, sell assets, issue debt or adjust its operating or capital spending to manage current and projected working capital levels. *See Note 2 – Basis of Presentation and Going Concern.*

Composition of the Company's capital structure *US$000's*	June 30, 2016	December 31, 2015
Working Capital	(10,351)	(6,478)
Long term loan, convertible debt and shareholders' equity	52,377	55,600
Ratios of working capital to long term loan, convertible debt and shareholders' equity [1]	(20%)	(12%)

[1] Convertible debt is combined with shareholder's equity due to the Company's right to settle debt by issuing shares.

19. SUBSEQUENT EVENTS

Maturity Date on Senior Debt Extended

Subsequent to June 30, 2016, the Company executed successive amending agreements to further extend the maturity date under the loan agreement dated November 25, 2013 with its senior lender until March 31, 2018.

Completion of Acquisition Transaction

On August 9, 2016 the Company successfully completed the acquisition of 66.67% interest in BEL. The aggregate consideration paid includes a cash payment of $6.0 million, which had previously been placed into escrow, and a release and discharge of an estimated $60.3 million of liabilities, claims and demands in relation to certain default loan amounts and any and all other obligations, liabilities, claims or demands of any kind owed to BEL, BEOC and/or Greenfields by Baghlan.

Restructuring Transaction

On August 18, 2016 the shareholders of the Company approved a resolution to increase the authorized share capital of the Company from 49,000,000 common shares to 499,900,000 common shares. The approved resolution also authorized the issuance of up to an aggregate of 111,124,540 common shares and 91,324,540 common share purchase warrants pursuant to the Restructuring Transaction (as defined in the management information circular of the Company dated July 18, 2016 (the "**Circular**"), resulting in the potential creation of Vitol Energy (Bermuda) Ltd. as a new control person of Greenfields.

Also on August 18, 2016, the Debentureholders approved an extraordinary resolution (the "**Debentureholders' Resolution**") through which the Debentures will be compromised and extinguished in satisfaction of all claims of the Debentureholders in exchange for common shares of the Company.

Pursuant to the Debentureholders' Resolution, following the satisfaction of certain conditions by Greenfields, 33,143,825 Common Shares (approximately 1,397 Common Shares for every CAD$1,000 of principal amount of Debentures, including all accrued and unpaid interest payable thereon) were issued to former Debentureholders.

BEOC Gas Sales Agreement Notice from SOCAR

On August 5, 2016 BEOC received notice from SOCAR indicating the desire to terminate the existing Gas Sales Agreement ("**GSA**"), which has been extended month to month, and negotiate a long term gas agreement. The current GSA provides for a gas sales price of $140 per mcm (approximately $3.96 per mcf). A proposal is being prepared for SOCAR and it is expected meetings scheduled with SOCAR for early September will lead to a final agreement by end of September 2016.