GREENFIELDS PETROLEUM CORPORATION

ahead of the curve

Condensed Consolidated Financial Statements

(Unaudited)

June 30, 2019

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

	Notes	As at June 30, 2019	As at December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		964	565
Accounts receivable	4	6,773	5,058
Accounts receivable related party	5	1,019	683
Advances for operating activities		1,165	1,193
Prepaid expenses and deposits		46	24
Inventories, net	6	3,339	3,313
		13,306	10,836
Non-Current Assets			
Property and equipment, net	7	180,084	182,635
Right-of-use assets, net	7	543	-
		193,933	193,471
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	8	10,484	9,124
Accounts payable related parties	5	2,887	2,635
Lease liabilities	16	543	-
Short term loans related parties	9	761	719
Short term loans	9	3,437	3,246
Current portion long term loan related party	10	18,137	12,908
		36,249	28,632
Non-Current Liabilities			
Long term loan related party	10	39,959	41,570
Commitments and contingencies	16		
Shareholders' Equity	11		
Common shares		180	180
Paid in capital		104,230	104,230
Share-based payments reserve		5,613	5,613
Surplus		7,702	13,246
Total Shareholders' Equity		117,725	123,269
(Basis of presentation and going concern – Note 2)		193,933	193,471

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

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

(signed) "Michael J. Hibberd"
Michael J. Hibberd
Director

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Crude oil and natural gas *(Note 14)*	8,080	9,088	14,428	16,134
Expenses				
Operating *(Note 14)*	5,034	5,113	10,235	10,137
Marketing and transportation	30	33	52	58
Administrative	537	1,075	1,172	2,230
Depreciation and amortization *(Note 7)*	2,504	1,672	4,581	3,083
	8,105	7,893	16,040	15,508
Income (Loss) from operating activities	(25)	1,195	(1,612)	626
Interest expense *(Note 13)*	(1,955)	(2,095)	(3,915)	(4,128)
Foreign exchange gain (loss)	(8)	9	(17)	20
Net loss	(1,988)	(891)	(5,544)	(3,482)
Total comprehensive loss	(1,988)	(891)	(5,544)	(3,482)
Per share				
Loss per share, basic and diluted *(Note 11)*	($0.11)	($0.05)	($0.31)	($0.19)

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

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

	Six Months Ended June 30,	
	2019	2018
Common shares *(Note 11)*		
Balance, beginning of period	180	180
Balance, end of period	180	180
Paid in capital		
Balance, beginning of period	104,230	104,230
Balance, end of period	104,230	104,230
Share-based payments reserve		
Balance, beginning of period	5,613	5,589
Share-based payments	-	13
Balance, end of period	5,613	5,602
Surplus		
Balance, beginning of period	13,246	23,901
Net loss for the period	(5,544)	(3,482)
Balance, end of period	7,702	20,419
Total Shareholders' Equity	117,725	130,431

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating Activities				
Net loss for the period	(1,988)	(891)	(5,544)	(3,482)
Items not affecting cash:				
Share-based compensation *(Note 12)*	(14)	(14)	(7)	(5)
Gain on sale of property and equipment	-	(253)	-	(253)
Depreciation and amortization	2,504	1,672	4,581	3,083
Interest expense *(Note 13)*	1,923	2,095	3,852	4,128
Unrealized foreign exchange (gain) loss	9	(10)	17	(21)
Cash Provided by operating activities before change in operating working capital	2,434	2,599	2,899	3,450
Change in operating working capital *(Note 15)*	(1,102)	863	(470)	926
Cash Provided by Operating Activities	1,332	3,462	2,429	4,376
Financing Activities				
Principal payments of lease liabilities	(217)	-	(424)	-
Cash Used in Financing Activities	(217)	-	(424)	-
Investing Activities				
Property and equipment	(623)	(1,064)	(695)	(1,671)
Change in working capital *(Note 15)*	(366)	(477)	(911)	(1,315)
Cash Used in Investing Activities	(989)	(1,541)	(1,606)	(2,986)
Effect of exchange rates on changes in cash	-	-	-	-
Increase in Cash and Cash Equivalents	126	1,921	399	1,390
Cash and Cash Equivalents, beginning of period	838	210	565	741
Cash and Cash Equivalents, end of period	964	2,131	964	2,131

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 an 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 2001 Timberloch Place, Suite 500, The Woodlands, Texas, 77380, 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 are listed on the Toronto's TSX Venture Exchange ("**TSXV**") under the trading symbol "GNF".

The Company owns Bahar Energy Limited ("**Bahar Energy**" or "**BEL**"), a venture company 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**" or "**CRA**") including the Bahar Gas Field and the Gum Deniz Oil Field and the Exploration Area ("**Exploration Area**"**)**. 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 purposes of acting as operator of the Bahar Project on behalf of the Contractor Parties as required under the ERDPSA.

Operating Environment of the Company

The Republic of Azerbaijan displays certain characteristics of an emerging market, and, as such the operations of Bahar Energy are exposed to various levels of political, legal, and other risks and uncertainties including fluctuation in currency exchange rates, high rates of inflation, corruption, changes in taxation policies, changing political condition, currency controls and governmental regulations that favor the awarding of contracts to local contractors. The future economic direction of the country is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Azerbaijani economy and the consequences, if any, these could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

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**") as issued by the *International Accounting Standards Board ("IASB").* The condensed consolidated financial statements have been prepared on the historical cost basis except for 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.

The 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 audited annual consolidated financial statements as at and for the year ended December 31, 2018.

Except for the application of new accounting standards as described in *Note 3 – Significant Accounting Policies,* the accounting policies, methods of computation and significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the year ended December 31, 2018.

On August 30, 2018, the shareholders of the Company authorized the consolidation of the issued and outstanding common shares in the capital of the Company into a lesser number of issued common shares on the basis of a ratio of ten (10) pre-Consolidation common shares for each one post-Consolidation common share. As at August 30, 2018, there was a total of 179,807,812 common shares of the Company issued and outstanding, of which 17,980,781 common shares became outstanding upon the implementation of the Consolidation on September 27, 2018. The outstanding share options were also consolidated, and their exercise price adjusted accordingly. The Consolidation has been reflected in these consolidated financial statements and all applicable references to the number of shares, warrants, share options and their strike prices and per share information have been adjusted on a retrospective basis for all years presented.

These condensed consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on August 22, 2019.

The Company is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment is dependent upon its ability to complete the development of oil and gas properties which includes meeting the related financing requirements. For the three and six months ended June 30, 2019, the Company reported a net loss of $2.0 million and $5.5 million (June 30, 2018 – net loss of $0.9 million and $3.5 million), respectively, and has an accumulated surplus of $7.7 million as at June 30, 2019. However, the Company has a negative working capital balance of approximately $23.0 million as at June 30, 2019. Consequently, the Company's ability to continue as a going concern depends on the Company being successful in raising additional capital through debt financing or issuing equity on favorable terms; collecting amounts due the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd. (the "**Lender**" or "**Vitol**"), executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, in the aggregate of $53.3 million, was converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments were scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (iv) payment of the 3% restructuring fee due the Lender under the Twelfth Amending Agreement was extended from November 1, 2018 to January 31, 2019. Per subsequent agreements with the Lender, payment of the cited restructuring fee as well as the scheduled mandatory early repayments due in January, April and July 2019 have been deferred to August 31, 2019 (the "**Deferrals**"). The Company is also in positive discussion with the lenders regarding future deferrals. See *Note 19 - Subsequent Events*.

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 and evaluate the potential for equity placement to replace some or all its debt obligations.

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. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in preparation of the condensed consolidated financial statements are consistent with those disclosed in the audited annual consolidated financial statements as at and for the year ended December 31, 2018, except as described below. The Company has not early adopted any standard, interpretation, or amendment that has been issued but is not yet effective.

Changes in Accounting Policies and Disclosures

The Company applied for the first time certain new standards, amendments and interpretations effective January 1, 2019:

Adoption of IFRS 16 "Leases"

IFRS 16 requires lessees to account for all leases, with certain exceptions, under a single on-balance sheet model, similar to finance leases under the previous effective standards IAS 17 *Leases* ("**IAS 17**") and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ("**IFRIC 4**"). Under the previous guidance, lessees were required to determine if a lease was a finance or operating lease, based on specified criteria. Finance lease liabilities were recognized on the statements of financial position while operating leases were recognized in the statements of comprehensive loss when the expense was incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use ("**ROU**") asset for both finance and operating lease contracts.

The Company adopted the standard effective January 1, 2019, applying the modified retrospective transition approach which does not require restatement of prior period financial information. This approach recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's statements of financial position, statements of comprehensive loss, changes in equity and cash flows has not been restated and continues to be accounted for in accordance with the Company's previous accounting policy found in the audited consolidated financial statements as at and for the year ended December 31, 2018.

On adoption, the Company elected to use the following practical expedients permitted under IFRS 16:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- For certain leases, initial direct costs were excluded from the measurement of the ROU asset.
- ROU assets and liabilities for short-term leases (ending within 12 months from January 1, 2019) and leases of low-value assets (less than $5 thousand) identified were not recognized on the consolidated statement of financial position.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to the leasing of vehicles and production equipment previously classified as operating leases under IAS 17. Under the new standard, these leases have been measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate of 13.8%. As at January 1, 2019, the Company recorded lease liabilities of $0.6 million.

The associated right-of-use asset was measured at cost which includes the amount of lease liabilities recognized and initial direct costs incurred. As at January 1, 2019, the Company recognized a right-of-use asset of $0.6 million. See *Note 16* – Commitments *and Contingencies* for a reconciliation of the Company's lease commitments as at December 31, 2018 and the lease liability recognized on the Company's statement of financial position at January 1, 2019. The cumulative effect of adopting this standard and its impact on the financial statements was not material.

The impact of the adoption of IFRS 16 as at January 1, 2019 is as follows:

US$000's	Reported at December 31, 2018	IFRS 16 Adjustment	Balance at January 1, 2019
Assets			
Right-of-use	-	645	645
Liabilities			
Lease liability	-	645	645

IFRS 16 – Summary of Accounting Policies

a) *Right-of-use assets*

The Company recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. ROU assets are subject to impairment. The cost of ROU assets is recognized in accordance with the Company's accounting policy for carried interest through which the Company recognizes its expenditures under a carried interest arrangement with respect to its interest and the interest retained by the other party as and when costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred expenditures. In relation to the SOA's 20% interest in the ERDPSA, the Company recognizes expenditures in excess of amounts reimbursed by SOA.

b) *Lease liabilities*

At the commencement date of a lease, the Company recognizes a lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c) *Critical judgments, estimation uncertainty and assumptions*

- Lease vs. non-lease components: In assessing contracts which may include both a lease (ROU asset) or a service component, a determination to separate the service component depends on its materiality and whether the components can be contracted separately. Judgment was required in the assessment of the ROU asset and lease liability relating to Electric Submersible Pumps ("**ESP**") where the contract included a monitoring service. The Company elected to recognize the monitoring service as part of the ROU asset as such service is an inherent part of the ESP operation provided at a very low incremental cost.

- Incremental borrowing rate: the incremental borrowing rate is based on the Company's prevailing interest rate for senior debt at January 1, 2019 which consist of LIBOR plus 11% per the corresponding loan agreement. The carrying balance of the right-of-use assets, lease liabilities, and the resulting depreciation and finance expenses, may differ due to changes in the interest rate and lease term.

IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23 to clarify accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019, and the adoption of IFRIC 23 did not result in significant changes in the estimates and judgments applied with respect to uncertainty over income tax treatments, and no adjustments were recognized upon transition in the condensed consolidated financial statements.

Amendments to IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28")

In October 2017, the IASB issued amendments to IAS 28 to clarify that a company applies IFRS 9 *Financial Instruments* to long term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Adoption of the amendments on January 1, 2019 did not have an impact in the condensed consolidated financial statements.

Fair value of financial instruments

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable approximations of their respective fair values due to the short-term maturities of those instruments. The carrying amount of loans is also a reasonable approximation of its fair value as the variable component of the applicable interest rate is similar to the rates prevailing as of the statement of financial position date.

The Company applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable. However, as the Company's accounts receivable primarily consists of receivables from sales of crude oil and natural gas to SOCAR under a production sharing agreement (ERDPSA), the loss allowance from expected credit losses did not have a material impact in the carrying value of accounts receivable.

4. ACCOUNTS RECEIVABLE

Accounts receivable are mainly from sales of crude oil and gas under the ERDPSA. The receivables are non-interest bearing and generally collected on 30 to 90 day terms. As at June 30, 2019, the Company had the following outstanding accounts receivable balances:

US$000's	June 30, 2019	December 31, 2018
Crude oil	2,966	2,074
Natural gas	3,209	2,479
Other receivables (1)	598	505
	6,773	5,058

(1) Includes accounts receivable related to value added taxes paid in advance on natural gas sales; other employee and miscellaneous receivables.

5. RELATED PARTY TRANSACTIONS

Accounts receivable related party

As at June 30, 2019, the Company had a related party receivable balance of $1 million (December 31, 2018 - $0.7 million) in connection with Protocol Proceeds. See *Protocol on Carry of SOA Certain Costs in Note 14 – Segment Information*.

US$000's	
SOA related party receivable at December 31, 2018	683
Protocol Proceeds accrued during the period	2,407
Protocol Proceeds collected during the period	(2,071)
SOA related party receivable at June 30, 2019	1,019

Accounts payable related parties

As at June 30, 2019, the Company had an accounts payable related parties balance of $2.9 million (December 31, 2018 - $2.6 million). The balance consists of funds owed to Vitol's subsidiaries in connection with a $1.4 million restructuring fee under the Twelfth Amending Agreement (see *Note 10 - Long Term Loan Related Party*) and $1.5 million in fees for technical consulting services.

6. INVENTORIES

At June 30, 2019, the Company had operating inventories of $3.3 million (December 31, 2018 - $3.3 million) consisting of spare parts, consumables, lubricants and fuel. Inventories are stated at the lower of cost or net realizable value.

7. PROPERTY AND EQUIPMENT, NET

US$000's	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2018	201,919	347	202,266
Additions	1,606	-	1,606
As at June 30, 2019	203,525	347	203,872
Less: Accumulated DD&A			
As at December 31, 2018	19,287	344	19,631
Additions [(1)]	4,154	3	4,157
As at June 30, 2019	23,441	347	23,788
Net property and equipment			
As at December 31, 2018	182,632	3	182,635
As at June 30, 2019	180,084	-	180,084

(1) Excludes depreciation charges of $424 thousand in connection with ROU assets recognized in the consolidated statements of financial position.

Details of ROU assets are as follows:

US$000's	ESP	Vehicles	Total
As at December 31, 2018	-	-	-
Effect of IFRS transition	635	10	645
As at January 1, 2019	635	10	645
Additions	207	115	322
Period Amortization [(2)]	(371)	(53)	(424)
As at June 30, 2019	471	72	543

(2) As result of adopting IFRS 16, lease principal payments are recorded as amortization expense in the consolidated statements of comprehensive loss.

Legal title to property and equipment

In accordance with the provisions of the ERDPSA, title to fixed and moveable assets will be transferred to SOCAR upon the earlier of the end of the calendar quarter following the date when all capital costs incurred by the Company are recovered or the termination of the ERDPSA. The definitions of operating costs and capital costs contained within the ERDPSA require subjective interpretation in determining the classification of these expenditures. The classification of these costs as operating expenditures is consistent with the annual work program and the budgets which have been approved by the Steering and Operating Committee of BEOC. In accordance with the terms of the ERDPSA, contractor parties and BEOC are granted the exclusive right of use for petroleum operations of all assets previously used by the "Gum Adasi" Oil and

Gas Production Division of SOCAR. These assets are available for use to contractor parties and BEOC for the economic life of the ERDPSA. SOCAR retains the ownership rights to all the original assets, therefore the Company's property and equipment does not include values of those assets transferred by SOCAR at the ERDPSA effective date.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	June 30, 2019	December 31, 2018
Trade accounts payable (1)	5,906	5,202
Accrued liabilities (2)	4,578	3,922
	10,484	9,124

(1) Trade accounts payable mainly consists of trade payables related to BEOC, the operating company under the ERDPSA.
(2) Accrued liabilities include wages, bonuses, taxes and other obligations.

9. SHORT TERM LOANS

Short Term Loans Related Parties

In September 2016, the Company secured additional funding of $550 thousand from five insiders of the Company (the "**Related Party Loans – Insiders**") with interest accruing at the rate of 12% per annum and maturity date of March 31, 2018. Interest payment is due at maturity, thereby the Company includes accrued interest in the carrying value of the loan. In consideration for the additional funding, the lenders received the fraction of 0.12 common shares for each USD$1.00 of principal amount loaned to the Company which value was recorded as deferred loan costs and is accreted over the life of the loans to interest expense. The Related Party Loans – Insiders are measured at amortized cost to reflect this accretion. The aggregation of accrued interest and accreted transaction costs results in an effective interest rate of 27.7%. In December 2018 the maturity of the loans was extended to September 30, 2019.

The balance of the Short Term Loans Related Parties is as follows:

US$000's	June 30, 2019	December 31, 2018
Related Party Loans - Insiders	550	550
Accrued interest (1)	211	169
Short term loans related parties	761	719

(1) For the three and six months ended June 30, 2019, the Company recorded total interest expense of $21 thousand and $42 thousand, respectively, (June 30, 2018 - $32 thousand and $70 thousand, respectively, which includes $20 thousand in amortization of deferred loan costs)

Short Term Loans

In September 2016, the Company secured additional funding from a consortium of lenders ("**Consortium of Lenders**") in the amount of $2.5 million (the "**Additional Loans**") with interest accruing at the rate of 12% per annum and maturity date of March 31, 2018. Interest payment is due at maturity, thereby the Company includes accrued interest in the carrying value of the loan. In consideration for the additional funding, the lenders received the fraction of 0.12 common shares for each USD$1.00 of principal amount loaned to the Company which value was recorded as deferred loan costs and is accreted over the life of the loans to interest expense. The Additional Loans are measured at amortized cost to reflect the accretion of the share consideration paid, thereby the aggregation of accrued interest and accreted transaction costs results in an effective interest rate of 27.7%. The maturity of the Additional Loans has been extended to September 30, 2019.

The balance of Additional Loans is as follows:

US$000's	June 30, 2019	December 31, 2018
Additional Loans	2,475	2,475
Accrued interest [(1)]	962	771
Additional Loans	3,437	3,246

(1) For the three and six months ended June 30, 2019, the Company recorded total interest expense of $95 thousand and $191 thousand, respectively, (June 30, 2018 - $144 thousand and $314 thousand, respectively, which includes $90 thousand in amortization of deferred loan costs).

10. LONG TERM LOAN RELATED PARTY

On August 9, 2016, the Company executed the Ninth Amending Agreement to the Loan Agreement with Vitol Energy (Bermuda) Ltd. which became effective August 19, 2016, in order to restructure the balances due under an existing term loan (the "**Term Loan**") into a new loan (the "**New Loan**") with maturity date of March 31, 2018 (the "**Maturity Date**"). The New Loan was secured by first priority liens on the existing and future assets of the Company and the Guarantors. Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the New Loan had a principal balance of $41.1 million with interest accruing at the rate of 12% per annum. Interest was contractually due at maturity, thereby the Company included accrued interest in the carrying value of the loan. The New Loan was subject to certain mandatory prepayments, carried no additional fees or transaction costs and is measured at amortized cost resulting in an effective interest rate of 12%.

In consideration for agreeing to the loan restructuring terms, on September 9, 2016, the Company issued: (i) to Vitol, 7,540,498 common shares in the capital of the Company and 7,540,498 warrants; and (ii) to Ingalls & Snyder LLC (**"I&S"**), a lender under the Vitol loan, 1,057,494 common shares and 1,057,494 Warrants. The common shares were subject to resale restrictions expiring four months from the date of issuance. The Company issued the common shares at a price of CAD$2.10 (USD$1.60) per common share for a total value of $13.9 million in common shares issued as consideration for the restructuring. As result of the common shares issued to Vitol in consideration for the Term Loan restructuring, Vitol became a controlling insider of the Company with ownership of 49.1% of the issued and outstanding common shares at the effective date of the Ninth Amending Agreement, thereby making Vitol a related party.

During 2017, the Company entered into the Tenth and Eleventh Amending Agreements to the Loan Agreement to facilitate deferral of loan prepayment obligations. Consequently, prepayment obligations of $500 thousand due on March 31, 2017, $1.0 million due on September 30, 2017, and $2.0 million due on September 30, 2017, were deferred until the earlier of the Maturity Date or voluntary prepayment. These deferred prepayment obligations accrued additional interest at 8% per annum.

On October 31, 2017, the Company and Vitol executed the twelfth amending agreement (the "**Twelfth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Twelfth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at November 1, 2017, being $47,145,881, was converted to principal (the "**Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from March 31, 2018 to January 15, 2020; (iii) interest on the Restructured Amount was amended to LIBOR plus 11% per annum and, in the event the Restructured Amount is reduced to an amount less than or equal to $30 million, the interest on outstanding portion of the Restructured Amount will be reduced to LIBOR plus 8% per annum; (iv) payment of interest on the Restructured Amount for 2017 and 2018 was deferred until the maturity date of the Loan Agreement; (v) the 7,540,498 common share purchase warrants held by Vitol Energy (Bermuda) Ltd. and the 1,057,494 warrants held by Ingalls & Snyder LLC were terminated; (vi) mandatory early repayments were scheduled quarterly, beginning January 1, 2019, with the repayment amounts varying depending on whether the outstanding amount under the loan facility is reduced to an amount equal to $30 million or less; and (vii) Greenfields agreed to pay the Lender a fee equal to 3% of the Restructured Amount or the equivalent of $1.4 million on or before November 1, 2018.

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd., executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, being $53,284,905, was converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (iv) payment of the 3% restructuring fee due the Lender under the Twelfth Amending Agreement was extended from November 1, 2018 to January 31, 2019. Through subsequent agreements with the Lender, loan quarterly repayments due in January, April and July 2019 in the aggregate of $10.0 million as well as payment of the 3% loan restructuring fee were deferred to August 31, 2019. The Company is also in positive discussions with the lenders regarding future deferrals. See *Note 19 - Subsequent Events*.

The balance of the Long Term Loan Related Party is as follows:

US$000's	June 30, 2019	December 31, 2018
Long term loan related party	53,285	53,285
Accrued interest [(1)]	4,811	1,193
Quarterly repayments [(2)]	(18,137)	(12,908)
Long term loan related party	39,959	41,570

[(1)] In connection with the Third Restructured Amount, the Company recorded interest expense of $1.8 million and $3.6 million respectively for the three and six months ended June 30, 2019, compared to $1.9 million and 3.7 milion for the three and six months ended June 30, 2018, respectively. See *Note 13 – Interest Expense* for breakdown of Long Term Related Party interest expense.

[(2)] Relates to the aggregation of loan quarterly repayments due in 2019 and first quarter and second quarter 2020, which amounts were reclassified as Current portion of long term loan related party in the statements of financial position.

11. SHAREHOLDER'S EQUITY

Authorized Share Capital

On September 27, 2018, the shareholders of the Company approved: (i) the implementation of the consolidation of the common shares of the Company (the "**Shares**"), previously approved at the meeting of Shareholders held on August 30, 2018; and (ii) the increase of the Company's authorized share capital post consolidation from 49,990,000 Shares of a nominal of par value of US$0.01 each and 100,000 preferred shares of a nominal or par value of US$0.001 each to 999,990,000 Shares of a nominal or par value of US$0.01 each and 100,000 preferred shares of a nominal or par value of US$0.001 each.

As at June 30, 2019, the authorized share capital of the Company consists of 999,990,000 common shares at a par value of US $0.01 each and 100,000 preferred shares at a par value of US $0.001 each.

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.

Common shares and paid in capital continuity schedule:

Outstanding common shares *US$000's, except for share amounts*	Number of Common Shares	Amount
As at December 31, 2018	17,980,781	104,410
Issued during the period	nil	-
As at June 30, 2019	17,980,781	104,410

Per Share Information

Per share loss *(US$000's, except for share and per share amounts)*	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Weighted average number of common shares outstanding	17,980,781	17,980,781	17,980,781	17,980,781
Loss for the period	(1,988)	(891)	(5,544)	(3,482)
Basic and diluted loss per share	($0.11)	($0.05)	($0.31)	($0.19)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the year that the equity instruments were outstanding. For the six months ended June 30, 2019, 65,000 outstanding share options (June 30, 2018 – 177,000 share options) were excluded from calculating dilutive loss per share as they were anti-dilutive. As at June 30, 2019 and December 31, 2018, the Company did not hold any common shares in treasury.

12. SHARE BASED COMPENSATION

The share-based compensation recorded by the Company are associated with share options and share-based cash settled bonuses for employees and directors. Share-based compensation expenses for the three and six months ended June 30, 2019 were ($14) thousand and ($7) thousand, respectively (June 30, 2018 – ($14) thousand and ($5) thousand, respectively).

	Three Months Ended June 30,		**Six Months Ended June 30,**	
US$000's	2019	2018	2019	2018
Share settled - Share options	-	6	-	13
Cash settled - Contingent bonus (1)	(5)	(9)	(3)	(10)
Cash settled - Cash bonus awards (1)	(9)	(11)	(4)	(8)
Total share-based compensation	(14)	(14)	(7)	(5)

(1) Amounts reflect award obligations accrued for during the referenced periods, not actual cash amounts paid out by the Company. See "*Contingent Bonus*"; *"Restricted Cash Bonus Program";* and *"Fair Value Director Cash Program"* below.

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:

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

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.

Stock Options Continuity Schedule:

	June 30, 2019		December 31, 2018	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	76,500	7.35	177,000	14.85
Expired	-	-	(59,000)	32.00
Forfeited	-	-	(41,500)	4.66
Surrendered	(11,500)	32.50	-	-
Outstanding, end of period	65,000	2.90	76,500	7.35
Exercisable, end of period	65,000	2.90	44,000	10.64

On January 1, 2017, the Company granted options to acquire 65,000 common shares of the Company pursuant to its stock option plan, 45,000 of which were granted to officers of the Company. The options are exercisable at a price of CAD$2.90 per common share and will expire five years from the grant date. The options vest 1/2 upon January 1, 2018 and 1/2 upon January 1, 2019.

The exercise price of the outstanding share options is CAD$2.90 per common share with all options expiring on January 6, 2022. At June 30, 2019, the exercisable options have remaining contractual lives of 2.5 years.

For the three and six months ended June 30, 2019, the Company recorded share options expense of $nil and $nil, respectively (June 30, 2018 - $6 thousand and $13 thousand respectively). The corresponding share options expense is recorded within the Company's share-based payment reserve.

Contingent Bonus

On January 12, 2015, the Company awarded the right to 50,049 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 the settlement date, with the value of common share determined by the closing price of the Company's common shares at such settlement date. The payment date for the contingent bonus has been deferred (the "**Deferred Payment Date**") until the first to occur of the following: January 1, 2020; the date of a change of control of the Company; or such earlier Payment Date as determined by the board.

At the award date, these rights were valued at the price of CAD$2.80 (USD$2.10) for a total share award expense of $103 thousand which was accrued as a contingent liability. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated liability for the contingent bonus at June 30, 2019 was $19 thousand (December 31, 2018 - $22 thousand). For the three and six months ended June 30, 2019, the Company recorded a decrease of $5 thousand and $3 thousand, respectively (June 30, 2018 – decrease of $9 thousand and $10 thousand, respectively) in the fair value of the contingent bonus liability.

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 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 vested 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 years vesting year 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.

On January 20, 2015, the Company awarded 10,787 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 9,453 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 payment date (the "**Deferred Payment Date**") for both awards has been deferred until the first to occur of the following: January 1, 2020; the date of a change of control of the company; or such earlier Payment Date as determined by the board. The estimated FVBCB liability at June 30, 2019 was $184 thousand (December 31, 2018 - $184 thousand) in connection with 24,740 units outstanding at such date.

The ABCB incentive awards vested in four tranches, 25% at grant date and 25% on each January 1 of the year immediately following the grant date. On December 24, 2018, all the awarded and exercisable ABCB expired.

For the three and six months ended June 30, 2019, the Company recorded restricted cash bonus expense of $nil and $nil, respectively (June 30, 2018 – $nil and $nil, respectively).

Fair Value Director Cash Bonus Program

On October 13, 2016, the Company established a Fair Value Director Cash Bonus Program ("**FVDCB**") for the board of directors consisting of cash settled incentives awarded in bonus units. Subsequently, the Company awarded 125,000 FVDCB units with the cash settlement value of a bonus unit equal to the average Canadian dollar denominated value of a common share for the five trading days prior to filing a call notice. The call notice is used to redeem a vested unit. However, in the case of a monetization event (as defined below), the bonus unit will equal the same amount a shareholder receives for a common share. A monetization event means: (1) the acquisition by a third party of all or substantially all the shares of the Company; (2) an amalgamation, arrangement, merger or other consolidation of the Company with another company; (3) a liquidation, dissolution or winding-up of the Company; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Company. The FVDCB program does not grant any entitlement to common shares or other equity interest in the Company. The FVDCB units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. In the event of involuntary removal from the board, death or a monetization event, the bonus units will immediately vest.

The estimated FVDCB liability at June 30, 2019 was $37 thousand (December 31, 2018 - $41 thousand). The liability is amortized over the three years vesting period and is also fair valued at each reporting date with adjustments recorded through profit and loss. For the three and six months ended June 30, 2019, the Company recorded a decrease of $9 thousand and $4 thousand, respectively (June 30, 2018 – decrease of $12 thousand and $8 thousand respectively) in the fair value of the FVDCB liability.

Key Employee Contingent Incentive Plan Award

On October 13, 2016, the Company established a Key Employee Contingent Incentive Plan Award ("**KECIP**"), for the employees of the Company and certain employees of BEOC, consisting of cash settled incentives awarded in bonus units. Subsequently, the Company awarded 1,128,500 KECIP units with the cash settlement value of a bonus unit equal to the same amount a shareholder receives for a common share if a monetization event occurs. A monetization event means: (1) the acquisition by a third party of all or substantially all the shares of the Company; (2) an amalgamation, arrangement, merger or other consolidation of the Company with another company; (3) a liquidation, dissolution or winding-up of the Company; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Company.

The KECIP program does not grant any entitlement to common shares or other equity interest in the Company. The KECIP units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. On May 12, 2017 and March 1, 2018, the Company awarded additional 73,000 and 50,000 KECIP units, respectively, to two employees and two contractors. After the forfeiture of 56,750 units, at June 30, 2019 the Company had 1,194,750 KECIP units outstanding of which 896,625 units were vested (December 31, 2018 – 1,194,750). No expense has been recorded for the issuance of the KECIP units as of June 30, 2019, as the related cash settlement value can only be determined when a monetization event takes place.

13. INTEREST EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2019	2018	2019	2018
Interest expense–long term loan (Restructured Amount) (1)	-	1,919	-	3,745
Interest expense – long term loan (Third Restructured Amount) (2)	1,806	-	3,618	-
Interest expense – short term loans (3)	117	176	234	383
Interest expense – lease liabilities (4)	32	-	63	-
	1,955	2,095	3,915	4,128

(1) Represents interest expense (including the accretion of debt issue costs) related to the long-term loan related party (Restructured Amount) under the October 31, 2017 Twelfth Amending Agreement with Lender.

(2) Effective October 31, 2018, the Company and the Lender restructured principal and interest in the amount of $53.3 million (Third Restructured Amount) under the Thirteenth Amending Agreement with maturity of January 31, 2021.

(3) Represents interest expense (including the amortization of deferred loan costs) related to the current short-term loans. In December 2018, the lenders agreed to extend the maturity of these loans to September 30, 2019.

(4) Interest payments in connection with the leasing of ROU assets. As result of adopting IFRS 16, lease principal and interest payments are recorded as depreciation and interest expense in the consolidated statement of comprehensive loss.

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14. SEGMENT INFORMATION

The Company's reportable and geographical segments are Azerbaijan and Corporate. The accounting policies used for the reportable segments are the same as the Company's accounting policies.

Total Assets and Liabilities

US$000's	June 30, 2019			December 31, 2018		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	13,247	59	13,306	10,679	157	10,836
Capital assets	180,683	(56)	180,627	182,631	4	182,635
Total assets	193,930	3	193,933	193,310	161	193,471
Current liabilities	(7,609)	(28,640)	(36,249)	(6,276)	(22,356)	(28,632)
Non-current liabilities	-	(39,959)	(39,959)	-	(41,570)	(41,570)
Total liabilities	(7,609)	(68,599)	(76,208)	(6,276)	(63,926)	(70,202)

Capital Expenditures

	Three Months Ended					
(US$000's)	June 30, 2019			June 30, 2018		
	Azerbaijan	Corporate and Other	Azerbaijan	Azerbaijan	Corporate and Other	Total
	989	-	989	1,541	-	1,541

	Six Months Ended					
(US$000's)	June 30, 2019			June 30, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	1,606	-	1,606	2,986	-	2,986

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Three Months Ended					
(US$000's)	June 30, 2019			June 30, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	8,080	-	8,080	9,088	-	9,088
Expenses						
Operating	5,034	-	5,034	5,366	(253)	5,113
Marketing and transportation	30	-	30	33	-	33
Administrative	-	537	537	-	1,075	1,075
Depreciation and amortization	2,501	3	2,504	1,671	1	1,672
	7,565	540	8,105	7,070	823	7,893
Income (loss) from operating activities	515	(540)	(25)	2,018	(823)	1,195
Interest expense	-	(1,955)	(1,955)	-	(2,095)	(2,095)
Foreign exchange gain (loss)	-	(8)	(8)	-	9	9
Net income (loss)	515	(2,503)	(1,988)	2,018	(2,909)	(891)

	Six Months Ended					
(US$000's)	June 30, 2019			June 30, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	14,428	-	14,428	16,134	-	16,134
Expenses						
Operating	10,235	-	10,235	10,390	(253)	10,137
Marketing and transportation	52	-	52	58	-	58
Administrative	-	1,172	1,172	-	2,230	2,230
Depreciation and amortization	4,578	3	4,581	3,081	2	3,083
	14,865	1,175	16,040	13,529	1,979	15,508
Income (loss) from operating activities	(437)	(1,175)	(1,612)	2,605	(1,979)	626
Interest expense	-	(3,915)	(3,915)	-	(4,128)	(4,128)
Foreign exchange gain (loss)	-	(17)	(17)	-	20	20
Net income (loss)	(437)	(5,107)	(5,544)	2,605	(6,087)	(3,482)

Revenues

BEL's entitlement share of production from crude oil, natural gas and natural gas liquids (together the "**Petroleum**") recognized as revenue represents its share of both cost recovery petroleum and profit petroleum and the allocation of SOA's 20% share of cost recovery petroleum as stipulated by the ERDPSA Carry 1 recovery provisions. For the three and six months ended June 30, 2019 and 2018, the Company recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
US$000's	2019	2018	2019	2018
BEL's share of Petroleum entitlement production	6,838	7,379	12,133	13,098
SOA's cost recovery Petroleum production	1,242	1,709	2,295	3,036
BEL's entitlement revenue	8,080	9,088	14,428	16,134

Protocol on Carry of SOA Certain Costs

On March 31, 2014, BEOC achieved Target Production Rate 2 ("**TPR2**") as defined in Article 3.5 "Special Provisions for Carrying SOA's Participating Interest" of the ERDPSA. Upon achieving TPR2, SOA became obligated to fund 20% of the Contract Rehabilitation Area operating costs and capital expenditures (together the "**Petroleum Costs**") starting the second quarter of 2014, thereby relieving BEL from the obligation to carry SOA's 20% share of Petroleum Costs under Carry 1 provisions of the ERDPSA. With TPR2 met, both BEL and SOA, as contractors to the ERDPSA, were obligated to fund their proportionate share of Petroleum Costs through cash calls issued by BEOC. However, due to SOA's failure to fund cash calls, BEL continued to carry SOA until a mechanism to address both SOA's funding obligations and BEL's cost recovery for the overfunding of Petroleum Costs could be negotiated.

On April 19, 2017, BEL and SOCAR signed a protocol in respect of the carry of certain costs (the "**Protocol**") which addresses the shortfall by SOA in funding its 20% share of Petroleum Costs incurred under the ERDPSA since April 2014. Per the Protocol effective April 19, 2017, SOA's 20% share of Petroleum Costs is to be funded from: (i) SOA's entitlement share of profit petroleum; and (ii) proceeds from SOCAR's marketing of the 10% compensatory petroleum delivered at no charge to SOCAR by the ERDPSA, (together the "**Protocol Proceeds**"). The cash call funding deficiencies by SOA are to be funded by BEL and the amounts equivalent to BEL's overfunding will be added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA Carry 1 recovery provisions.

The Protocol was implemented as a financing mechanism, whereby should BEL pay SOA's share of expenditures, BEL would be entitled to receive SOA's share of Cost Recovery Petroleum until such time as: (a) amounts were no longer owing under Carry 1; and (b) no portion of the SOA's share of expenditures was outstanding. Per the Protocol, any amounts received from SOA as Protocol Proceeds are treated as a financing and recorded as reimbursements of Petroleum Costs incurred. The Protocol Proceeds do not meet the requirements to be accounted for as oil and gas revenue.

Accordingly, the Company is recording SOA's 20% share of costs as if SOA is still under Carry 1 provisions, net of SOA's funding from Protocol Proceeds. These costs in excess of amounts reimbursed by SOA are respectively recorded in the statements of financial position and comprehensive net income (loss) as capitalized expenditures and operating expenses.

Capital Expenditures

BEL's capital expenditures represent the aggregation of the BEL's 80% share of expenditures and the remaining portion of SOA expenditures funded by BEL. For the three and six months ended June 30, 2019 and 2018, the Company recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2019	2018	2019	2018
BEL's 80% share of capital expenditures	942	1,435	1,540	2,729
SOA's 20% share of capital expenditures	235	359	385	682
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(59)	(33)	(90)	(52)
Value of SOCAR's Compensatory petroleum	(129)	(220)	(229)	(373)
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	47	106	66	257
Total capital expenditures	989	1,541	1,606	2,986

Operating costs

BEL's operating costs represent the aggregation of the BEL's 80% share of costs and the remaining portion of SOA's costs funded by BEL. For the three and six months ended June 30, 2019 and 2018, the Company recognized operating costs from BEL's participation in the ERDPSA as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2019	2018	2019	2018
BEL's 80% share of operating costs	4,979	5,033	9,858	9,627
SOA's 20% share of operating costs	1,245	1,258	2,465	2,407
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(381)	(118)	(588)	(200)
Value of SOCAR's Compensatory petroleum	(809)	(807)	(1,500)	(1,444)
BEL's net overfunding of operating costs (SOA's funding deficiency)	55	333	377	763
Total operating costs	5,034	5,366	10,235	10,390

In relation to Protocol Proceeds, for the six months ended June 30, 2019, the Company had a receivable balance of $1 million (December 31, 2018 - $0.7 million) consisting of uncollected Protocol Proceeds. See *Note 5 – Related Party Transactions*.

For the three and six months ended June 30, 2019, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $0.1 million and $0.5 million, respectively (compared to June 30, 2018 – $0.4 million and $1 million respectively). Per the Protocol, this net overfunding has been added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA carry recovery provisions. At June 30, 2019 the balance of Carry 1 is as follows:

US$000's	
Carry 1 - Opening Amount at January 1, 2019	33,717
SOA's share of capital expenditures funded by BEL	385
SOA's share of operating costs funded by BEL	2,465
Protocol Proceeds accrued - Recorded as reduction of costs	(2,407)
SOA's share of cost recovery Petroleum production – Recorded as revenue	(2,295)
Carry 1 - Outstanding Amount at June 30, 2019 (1)	31,865

(1) In accordance with the Bahar Joint Operating Agreement, the Carry 1 Ledger is maintained as a separate financing register by BEOC reflecting the funding by BEL and reimbursements made by SOA from their share of cost recovery petroleum.

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15. SUPPLEMENTAL CASH FLOW INFORMATION

Net changes in working capital:

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2019	2018	2019	2018
Trade receivables	(1,428)	2,652	(1,715)	2,928
Receivables from related parties	(278)	262	(336)	212
Advances for operating activities	(204)	(286)	28	(297)
Prepaid expenses and deposits	22	31	(23)	86
Inventories	190	39	(25)	179
Accounts payable and accrued liabilities	617	(2,007)	1,349	(2,380)
Accounts payable related parties	(21)	172	252	198
Related to operating activities	(1,102)	863	(470)	926
Related to financial activities-lease liabilities	(217)		(424)	
Related to investing activities-AP property & equipment	(366)	(477)	(911)	(1,315)

16. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of June 30, 2019:

US$000's	**2019**	**2020**	**Thereafter**	**Total**
Short term loans – interest (1)	1,289	-	-	1,289
Short term loans – principal (1)	3,025	-	-	3,025
Long term loan – interest (2)	-	-	11,440	11,440
Long term loan – principal (2)	12,908	9,781	30,595	53,284
Long term loan – restructuring fee (3)	1,414	-	-	1,414
Total Contractual Commitments	18,636	9,781	42,035	70,452

(1) Represents outstanding principal and accrued interest for short term loans which maturity was extended to September 30, 2019.
(2) Represents long term loan contractual principal payment obligations in 2019, 2020, and at maturity date of January 31, 2021. Accrued interest is also due at maturity. Per October 31, 2018 Thirteenth Amending Agreement, the maturity of this loan was extended until January 31, 2021.
(3) Represents a 3% restructuring fee on the Restructured Amount per the 12th Amending Agreement with the Lender. Per subsequent agreements with the Lender, payment of this fee was deferred until August 31, 2019. See *Note 19 - Subsequent Events*.

Lease commitments

The Company has the following estimated annual obligations related to various leases. The minimum future payments for these leases are as follows:

US$000's	**2019**	**2020**	**Thereafter**	**Total**
Office lease payments (4)	8	-	-	8
ROU assets – lease payments (5)	520	87	-	607
Total Lease Commitments	528	87	-	615

(4) The Company has leased office space for its corporate headquarters in the United States through December 31, 2019.
(5) Includes principal and interest payments in connection with the leasing of ROU assets. As result of adopting IFRS 16, lease principal and interest payments are recorded as amortization and interest expense in the consolidated statements of comprehensive loss.

The following table reconciles the Company's lease commitments disclosed as at December 31, 2018 with lease obligations recognized on the Company's statement of financial position at January 1, 2019 and June 30, 2019.

US$'000s	**Lease Commitments**
As disclosed at December 31, 2018	24
Short-term leases	(24)
Leases identified as at January 1, 2019	740
Discounting impact	(95)
Lease liability recognized at January 1, 2019	645
Additions	322
Payments	(424)
Lease liability recognized at June 30, 2019	543

The Company's commitments to fund the Bahar Project are based on the annual Work Plan and Budget ("**WP&B**") approved by the BEOC Steering Committee. The WP&B must be approved by contractor parties representing an 80% or greater ownership interest before submission to SOCAR for approval. Through BEL, a wholly-owned subsidiary of the Company holding an 80% controlling interest in the ERDPSA, the Company maintains control of the approval of the annual WP&B. While additional funding is secured, the Company expects to only approve budgets that can be fully funded from project operating cash flows.

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 the counterparty to a financial instrument fails to meet its contractual obligations.

As at June 30, 2019, the Company's accounts receivable primarily consists of receivables from crude oil and natural gas sales to SOCAR. At June 30, 2019, receivables from invoiced crude oil and natural gas sales had an average of 30 days outstanding. All receivable balances (including accruals of crude oil and natural gas lifted at June 30, 2019) are considered by management to be collectable.

Cash and cash equivalents consist of bank deposits held in major United States banks for corporate activities and cash held by BEOC in Azerbaijan for operating activities. 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 for corporate accounts in the United States and for BEOC operating accounts in Azerbaijan. The Company's maximum exposure to credit risk at June 30, 2019 and December 31, 2018 is as follows:

US$000's	June 30, 2019	December 31, 2018
Cash and cash equivalents	964	565
Accounts receivable	6,773	5,058
Accounts receivable related party	1,019	683
Advances for operating activities	1,165	1,193
	9,921	7,499

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 and working capital are insufficient for the Company to meet its ongoing obligations as they come due, 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 year expenditure budgets and forecasts, which are regularly monitored and updated as considered necessary to assess current cash flow needs for the funding of Bahar project and corporate obligations. The Company may raise additional capital through debt and the issuance of shares to meet its funding requirements.

The Company's financial liabilities as at June 30, 2019 and December 31, 2018 arose primarily from corporate obligations and payables incurred by BEOC. Payment terms on accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest. The settlement of accounts payable is subject to liquidity and may extend payment terms. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	June 30, 2019			December 31, 2018
US$000's	Within 1 year	Within 1 – 3 years	Total	Total
Accounts payable and accrued liabilities (1)	10,484	-	10,484	9,124
Accounts payable related parties (2)	2,887	-	2,887	2,635
Lease liabilities (3)	607	-	607	-
Short term loans – interest (4)	1,289	-	1,289	1,175
Short term loans - principal (4)	3,025	-	3,025	3,025
Long term loan – interest (5)	-	11,440	11,440	11,461
Long term loan – principal 5)	18,137	35,147	53,284	53,284
	36,429	46,587	83,016	80,704

(1) As at June 30, 2019 and December 31, 2018, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.

(2) Accounts payable related parties consists of obligations with Vitol's subsidiaries. Amount includes $1.4 million in loan restructuring fees and $1.5 million in technical consulting fees. Effective December 31, 2018, under a new amending agreement with the Lender, payment of the loan restructuring fee was extended until August 31, 2019. See *Note 19 - Subsequent Events.*

(3) Includes principal and interest payments in connection with the leasing of ROU assets. As result of adopting IFRS 16, lease principal and interest payments are recorded as depreciation and interest expense in the consolidated statements of comprehensive loss.

(4) Represents outstanding principal and accrued interest estimated through maturity for short term loans. Maturity was extended from to September 30, 2019.

(5) Represents principal and accrued interest estimated through maturity for long term loans maturing January 31, 2021. See *Note 10 – Long Term Loan Related Party*.

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as the 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. As at June 30, 2019 and December 31, 2018, 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 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.

The Company has reduced the risk of changing natural gas prices by signing an Amended Gas Sales Agreement with SOCAR, effective April 1, 2017, which fixed the natural gas price at $2.69/mcf until December 31, 2021. Through an oil sales agreement with SOCAR, the Company expects to continue receiving net oil prices that have historically realized approximately 95% of the Brent crude benchmark less transportation costs.

As at June 30, 2019 and December 31, 2018, 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's long term loan related party has an interest rate of LIBOR plus 11%. A 1% increase in projected LIBOR would increase interest expense approximately $1.1 million over the remaining life of the loan.

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 and 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, 2019	December 31, 2018
Working Capital deficit	(22,943)	(17,796)
Long term debt and shareholders' equity (Does not include current portion of long term debt)[1]	157,684	164,839
Ratios of working capital deficit to long term debt and shareholders' equity	(15%)	(11%)

(1) Increase in ratios of working capital deficit to long term debt and shareholders' equity is mainly due to $5.2 million moved to current portion of long term debt within current liabilities.

19. SUBSEQUENT EVENTS

Extension of Debt Payment

The Company executed payment deferral letters with Vitol to defer payments, in the aggregate of $11.4 million (including restructuring fee-$1.4 million), until August 31, 2019. The Company is also in positive discussions with the lenders regarding future deferrals.

The Company executed deferral letters with short term lenders to extend maturity until September 30, 2019.