GREENFIELDS PETROLEUM CORPORATION

Consolidated Financial Statements

For the years ended
December 31, 2017 and 2016

PANNELL KERR FORSTER OF TEXAS, P.C.

CPAs & Professional Advisors
5847 San Felipe St., Suite 2600
Houston, Texas 77057-3000
Main: (713) 860-1400
Fax: (713) 355-3909
www.pkftexas.com

Independent Auditors' Report

To the Shareholders of
Greenfields Petroleum Corporation

Opinion

We have audited the accompanying consolidated financial statements of Greenfields Petroleum Corporation (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greenfields Petroleum Corporation as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements according to the Canadian Securities Administrators (CSA), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group has historically incurred substantial loses, has negative working capital and has substantial operating and development obligations necessary as operator of the Bahar Project. The Group's ability to fund its operating and development plans is dependent on management's ability to obtain additional funding through debt or equity and collect its accounts due from third parties and achieve profitable operations. As stated in Note 2, these conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Long-term Debt Restructuring

As discussed in Note 13, the Group executed an agreement to restructure existing notes payable to a related party as of October 31, 2017. The modification of the note was accounted for as a substantial modification included an extension of the maturity date and reduction of the interest rate from 12% per annum to LIBOR + 11% per annum. In addition, warrants originally issued with the notes were cancelled and the corresponding warrant liability was extinguished. The accounting treatment of the transaction was significant to our audit.

Oil and Gas Operations

As discussed in Note 19, the Group's primary operations are located in Azerbaijan, and revenues are calculated based on entitlement volumes as marketed through State Oil Company of Azerbaijan ("SOCAR"). Revenues recognized represent the Group's share of both cost recovery petroleum and profit petroleum, as well as the allocation of SOCAR Oil Affiliate ("SOA") cost recovery petroleum in accordance with the Production Sharing Agreement. In addition, the Group signed a Protocol with SOCAR that addresses the shortfall by SOA in funding their 20% share of Petroleum Costs. The new Protocol allows for funding from SOA's entitlement share of profit petroleum and proceeds from SOCAR's marketing of their share of compensatory petroleum. Any funding deficiencies are added to the existing Carry 1 subject to reimbursement through allocation of SOA's share of current and future production. The accounting treatment and calculation related to the Protocol, revenues and expenditures, including cost recovery, was significant to our audit.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The engagement director on the audit resulting in this independent auditor's report is Brian Carl Baumler.

Pannell Kerr Forster of Texas, P.C.

April 13, 2018

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

	Notes	As at December 31, 2017	As at December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents		741	1,361
Accounts receivable	6	9,620	8,776
Advances for operating activities		830	802
Prepaid expenses and deposits		142	70
Inventories	8	2,545	1,239
		13,878	12,248
Non-Current Assets			
Property and equipment, net	10	186,719	187,093
		200,597	199,341
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	11	14,308	13,692
Accounts payable related parties	7	2,049	-
Short term loans related parties	12	615	-
Short term loans	12	2,779	-
		19,751	13,692
Non-Current Liabilities			
Long term loans related party	13	46,946	43,449
Long term loans	13	-	2,168
Warrants	13	-	546
		46,946	46,163
Shareholders' Equity	16		
Common shares		180	157
Paid in capital		104,230	100,852
Share-based payments reserve		5,589	5,508
Surplus		23,901	32,969
Total Shareholders' Equity		133,900	139,486
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 23)		200,597	199,341

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

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

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

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

	Years Ended December 31,	
	2017	2016
Revenues		
Crude oil and natural gas *(Note 19)*	29,446	14,422
Management service fees	-	809
	29,446	15,231
Expenses		
Operating *(Note 19)*	20,887	12,216
Marketing and transportation	107	52
Administrative	3,093	5,552
Depreciation and amortization	8,798	4,021
	32,885	21,841
Loss from operating activities	(3,439)	(6,610)
Income from acquisition transaction		
Income from fair value of future dividends *(Note 3)*	-	8,467
Gain on acquisition *(Note 3)*	-	81,524
Income (expense) from debt restructuring		
Gain on settlement of long term loan *(Note 14)*	-	24,137
Gain on settlement of debentures *(Note 15)*	-	13,672
Other financing costs *(Note 13)*	-	(13,854)
Fair value of warrants issued *(Note 13)*	546	(546)
Other income (expense)		
Income on investment in joint venture	-	992
Interest income *(Note 18)*	-	3,420
Interest expense *(Note 18)*	(6,138)	(10,803)
Foreign exchange loss	(37)	(1,206)
Net income (loss)	(9,068)	99,193
Total comprehensive income (loss)	(9,068)	99,193
Per share		
Income (loss) per share, basic and diluted *(Note 16)*	($0.05)	$1.52

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

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

	Years Ended December 31,	
	2017	2016
Common shares *(Note 16)*		
Balance, beginning of year	157	22
Issuance of common shares pursuant to:		
Debt restructuring	-	86
Conversion of debentures	-	33
Settlement of long term loan	-	12
Additional loans	-	4
Private placement	21	-
Satisfaction of debt	2	-
Balance, end of year	180	157
Paid in capital		
Balance, beginning of year	100,852	76,935
Shares issued pursuant to:		
Debt restructuring	-	13,768
Conversion of debentures	-	7,646
Settlement of long term loan	-	1,922
Additional loans	-	581
Private placement	3,041	-
Satisfaction of debt	337	-
Balance, end of year	104,230	100,852
Share-based payments reserve		
Balance, beginning of year	5,508	5,466
Share-based payments (share options)	81	42
Balance, end of year	5,589	5,508
Surplus (Deficit)		
Balance, beginning of year	32,969	(66,224)
Net income (loss) for the year	(9,068)	99,193
Balance, end of year	23,901	32,969
Total Shareholders' Equity	133,900	139,486

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

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

	Years Ended December 31, 2017	2016
Operating Activities		
Net income (loss) for the year	(9,068)	99,193
Items not affecting cash:		
Share-based compensation *(Note 17)*	31	146
Other share-based payments *(Note 17)*	30	-
Value of shares issued for Loan-2 success fee	-	81
Depreciation and amortization	8,798	4,021
Income from fair value of future dividends *(Note 3)*	-	(8,467)
Gain on acquisition *(Note 3)*	-	(81,524)
Gain on settlement of long term loan *(Note 14)*	-	(24,137)
Gain on settlement of debentures *(Note 15)*	-	(13,672)
Other financing costs *(Note 13)*	-	13,854
Fair value of warrants issued *(Note 13)*	(546)	546
Income on investment in joint venture *(Note 9)*	-	(992)
Interest income *(Note 18)*	-	(3,420)
Interest expense *(Note 18)*	6,138	10,803
Unrealized foreign exchange loss	29	1,211
Cash Provided by (Used in) operating activities before change in non-cash operating working capital	5,412	(2,357)
Change in non-cash operating working capital *(Note 20)*	(5,063)	779
Cash Provided by (Used in) Operating Activities	349	(1,578)
Financing Activities		
Proceeds from issue of common shares *(Note 16)*	3,062	-
Proceeds from short term loans	70	7,000
Proceeds from long term loans	-	2,954
Cash Provided by Financing Activities	3,132	9,954
Investing Activities		
Property and equipment	(4,090)	(1,144)
Acquisition, net of cash acquired	-	(5,962)
Cash Used in Investing Activities	(4,090)	(7,106)
Effect of exchange rates on changes in cash	(11)	(9)
Increase (Decrease) in Cash and Cash Equivalents	(620)	1,261
Cash and Cash Equivalents, beginning of year	1,361	100
Cash and Cash Equivalents, end of year	741	1,361

The accompanying notes are an integral part of these 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 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 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.

Acquisition and Restructuring Transactions

On August 9, 2016 the Company, through its wholly-owned subsidiary, Greenfields Petroleum International Company Ltd. ("**GPIC**"), completed the acquisition of Baghlan Group Limited's ("**Baghlan**") 66.67% interest (the "**Interest**") in BEL and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan (the "**Acquisition**"). The aggregate consideration paid by GPIC for the Acquisition included a cash payment of $6.0 million and a release and discharge of $60.7 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 (the "**Default Obligations**"). Upon completion of the Acquisition, BEL became a wholly-owned subsidiary of GPIC. See also *Note 3 – Acquisition of Interest in Bahar Energy*.

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 continue extending the loan maturity date until August 31, 2016.

In connection with the Fifth Amending Agreement, the Company: (i) effected the conversion (the "**Debenture Conversion**") of the 9.00% convertible unsecured subordinated debentures due May 31, 2017 (the "**Debentures**") with a principal amount of CAD$23.7 million, into an aggregate of 33.1 million common shares in the capital of the Company ("**Common Shares**"); (ii) issued, in connection with the completion of the restructuring, an aggregate of 86 million Common Shares to the Lenders under the Loan Agreement; and (iii) issued, in connection with the completion of the restructuring, 86 million Common Share purchase warrants ("**Warrants"**) to the Lenders (collectively, the "**Restructuring Transaction**"). The Debenture Conversion was implemented upon the approval of the Debentureholders governing the Debentures on August 18, 2016.

Contemporaneous with the completion of the Restructuring Transaction, on August 18, 2016 the Company signed an amending agreement to further extend the maturity date under the Loan Agreement to March 31, 2018. The TSXV approved both the Acquisition and Restructuring Transaction in their entirety at that time.

The Company entered into a definitive agreement ("**Definitive Agreement**") with Heaney Assets Corp. ("**Heaney**") to settle all amounts outstanding under the Subordinated Revolving Loan Agreement dated June 27, 2014, as amended, which had an original maturity date of June 30, 2018. Under the terms of the Definitive Agreement, Greenfields issued 11.5 million Common Shares of the Company to Heaney in full satisfaction of all amounts outstanding under the loan agreement, including principal in the amount of $20,834,705 and accrued interest. In addition to the Common Shares issued to Heaney, at closing of the Definitive Agreement, Greenfields paid an agent a success fee for negotiating the terms of the Definitive Agreement which consisted of a cash payment of $1,000,000 and the issuance of 500,000 Common Shares. See also *Note 14* – Settlement of *Long Term Loan-2.*

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 consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("**IFRS**")* as issued by the *International Accounting Standards Board ("**IASB**")*. The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based compensation transactions which are measured at fair value as discussed in *Note 4 – Significant Accounting Policies*.

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 consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on April 12, 2018.

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 year ended December 31, 2017, the Company reported a net loss of $9.1 million, (December 31, 2016 – Net income of $99.2) and has an accumulated surplus of $23.9 million as at December 31, 2017. The net income for year ended December 31, 2016 includes $113.6 million in one-time net realized gains attributable to the acquisition and debt restructuring transactions. However, the Company has a negative working capital balance of approximately $5.9 million as at December 31, 2017. 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 issuance of equity on favorable terms; collecting amounts due the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

On May 12, 2017, the Company completed a non-brokered private placement of 2,398,630 common shares of the Company for aggregate gross proceeds of $350 thousand. Also, on June 27, 2017, the Company completed a brokered private placement of 18,258,201 common shares of the Company for aggregate gross proceeds of $2.7 million. See *Note 16 – Shareholder's Equity.*

On September 30, 2017, the Company and its senior lender Vitol Energy (Bermuda) Ltd. (the "**Lender**" or "**Vitol**") executed an arrangement to extend the maturity of its loan agreement (the "**Loan Agreement**") from March 31, 2018 to January 15, 2020, and mutually agreed to negotiate terms of the other provisions of the Loan Agreement by November 15, 2017. On October 31, 2017, the Company executed a twelfth amending agreement (the "**Amendment**") to the Loan Agreement. Pursuant to the Amendment, the principal amount plus accrued and unpaid interest as at November 1, 2017, was converted to principal (the "**Restructured Amount**"); the maturity date of the Loan Agreement was extended from March 31, 2018 to January 15, 2020; payment of interest on the Restructured Amount for 2017 and 2018 was deferred until the maturity date of the Loan Agreement; mandatory early repayments were scheduled quarterly, beginning January 1, 2019; and the 85,979,917 common share purchase warrants previously issued to the Lender were terminated.

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. The Company will also evaluate the potential for equity placement to replace some or all its debt obligations.

These 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. ACQUISITION OF INTEREST IN BAHAR ENERGY

On August 9, 2016, Greenfields closed the Acquisition of Baghlan's 66.67% share interest in Bahar Energy and Baghlan's interest in a shareholder loan receivable due from Bahar Energy to Baghlan. With the completion of the Acquisition, Bahar Energy became a wholly-owned subsidiary of the Company. The aggregate consideration paid for the Acquisition included a cash payment of $6.0 million, and release and discharge of all 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 Bahar Energy, BEOC and/or Greenfields by Baghlan.

As at August 9, 2016, the Company estimated the Default Obligations to be an aggregate of $60.7 million consisting of $30.3 million currently due from Baghlan and attributable to default loans funded by Greenfields including the associated financing costs and penalties for Baghlan's failure to fund shareholder loans when due; and $30.3 million due out of Baghlan's future dividends payable from Bahar Energy, which the Company has fair valued at $8.5 million. The Acquisition of Baghlan's interest in Bahar Energy fits within Greenfield's business growth model and operating strategy to increase its participation in the value of reserves and production realized from the Bahar Project. With the acquisition of the remaining interest in Bahar Energy, Greenfields assumes full control of the Bahar Project through Bahar Energy's wholly-owned subsidiary, BEOC.

As part of the Acquisition, Greenfields incurred transaction costs estimated at $380 thousand which were expensed through the Consolidated Statement of Comprehensive Income (Loss).

The Acquisition transaction was accounted for by the acquisition method. The allocation of the purchase price, based on management's fair value estimates, is as follows:

(US$000's)	Bahar Energy Limited		
Fair value of assets acquired	Greenfields' Original 33.33%	Baghlan's 66.67%	Total
Petroleum and natural gas properties	62,963	125,946	188,909
Inventories	353	707	1,060
Working capital	(190)	(382)	(572)
Fair value of BEL assets	63,126	126,271	189,397
Consideration:			
Cash	-	(6,000)	(6,000)
Fair value of Baghlan default obligations	-	(30,337)	(30,337)
Fair value of Baghlan future dividends at acquisition [1]	-	(8,467)	(8,467)
Carrying value of Investment in Joint Venture	(63,069)	-	(63,069)
Total consideration	(63,069)	(44,804)	(107,873)
Net gain on assets acquired in acquisition	57	81,467	81,524

(1) Represents management's estimated fair value of future dividends due to Greenfields out of Baghlan's future dividends from BEL equal to the $30.3 million in default obligations at the Acquisition date of August 9, 2016, calculated based on the same expected BEL cash outflows and discount rate used to value the acquired petroleum and natural gas assets. For the year ended December 31, 2016, the Company recorded income of $8.5 million for the fair value of future dividends in the Consolidated Statement of Comprehensive Income (Loss) and recognized the amount as a component of the consideration paid for the Acquisition.

Pro forma estimates for the above noted acquisition are as follows:

For the year ended December 31, 2016

(US$000's)	As Stated	BEL prior to August 9, 2016 [1]	Pro Forma [2]
Revenue	15,231	19,085	34,316
Income [3]	99,193	1,982	101,175

(1) Includes 100% of BEL revenues, including the Company's original 33.33% share recorded through income or loss on Investment in Joint Venture under the equity method of accounting prior to the Acquisition date of August 9, 2016 and Baghlan's 66.67% share of BEL income for the period January 1, 2016 to August 8, 2016.
(2) The above Pro Forma amounts reflect the estimated accounting results that would have occurred had the BEL acquisition been completed on January 1, 2016.
(3) Note that both the "As Stated" and "Pro Forma" amounts include one-time income of $113.6 million associated with the Acquisition and Restructuring Transactions ($90.0 million and $23.6 million, respectively).

The fair value of petroleum and natural gas properties recognized on an acquisition is based on market values. The market value of petroleum and natural gas properties is the estimated amount for which petroleum and natural gas properties could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports which apply existing contractual arrangements and forward looking price decks as at the date of acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company's subsidiaries as at December 31, 2017 and 2016.

Subsidiaries are entities controlled by the Company. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and they are deconsolidated from the date that such control ceases. When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated upon consolidation. Investments in companies in which the Company does not maintain significant influence or joint control are accounted for on the cost basis.

The Company records its share of assets and liabilities associated with joint operations while joint ventures follow the equity method of accounting. Under the equity method of accounting:

- Initial investments are recognized at cost. Cost is the fair value of the consideration paid by the Company.
- The Company's share of post-acquisition profits or losses is recognized in profit or loss and its share of post-acquisition other comprehensive income is recognized in other comprehensive income (loss).
- The post-acquisition movements including additional funding via cash calls, related interest financing charges and distributions received are adjusted against the Company's carrying amount of the investments.
- When the Company's share of losses in the jointly controlled entity equals or exceeds its interest in the investment, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Company resumes recognition of its share of those profits only after its share of the profits equals the share of losses not recognized.
- Unrealized gains on transactions between the Company and the jointly controlled entity are eliminated to the extent of the Company's interest in the jointly controlled entity. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position include cash at banks and on hand.

Accounts receivable

Accounts receivable are recorded based on the Company's revenue recognition policy. The allowance for doubtful accounts provides for specific doubtful receivables, as well as general counterparty credit risk evaluated using observable market information and internal assessments.

Exploration and evaluation costs ("E&E")

Oil and gas exploration, development and production costs are accounted for using the modified successful efforts method. As such, pre-license costs, geological and geophysical costs, lease rentals of undeveloped properties and dry hole and bottom hole contributions are charged to expense when incurred.

All other E&E costs are capitalized, including the cost of acquiring unproved properties and the costs associated with drilling exploratory wells. When recoverable reserves are determined, the relevant expenditure is tested for potential impairment and then transferred to property and equipment. However, if recoverable reserves have not been established, the capitalized costs are charged to expense after the conclusion of appraisal activities. Exploration well costs for which sufficient reserves have been found to justify commercial production will continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. When this is no longer the case, the costs are written off.

Development costs

Expenditures on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including the unsuccessful development of delineation wells, are capitalized in oil and gas properties. Geological and geophysical costs related to development activity are also capitalized.

Property and equipment ("P&E")

P&E is stated at cost less accumulated depletion, depreciation and accumulated impairment losses and includes the costs of transfers of commercially viable and technically feasible E&E assets, oil and gas development and production assets and other assets. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning liability and capitalized borrowing costs for qualifying assets. Major replacements are capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the replaced asset is derecognized. Repair and maintenance costs are charged as an expense when incurred.

Depletion, depreciation and amortization ("DD&A")

Capitalized costs of oil and gas properties are depleted using the unit of production method; acquisition costs of properties are amortized over the Company's best estimate of total proved recoverable reserves using contract pricing for natural gas and forward strip pricing for crude oil. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of six thousand cubic feet of natural gas for one barrel of oil. To the extent significant development costs are incurred in connection with undeveloped reserves, such costs are excluded from depletion until the reserves are developed and the assets are ready for their intended use.

The Company's other assets consist mainly of leasehold improvements, computers, software, furniture and fixtures, and support equipment not directly related to oil and gas properties. For these assets depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value.

Carried interest

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 the 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 the ERDPSA, the Company recognizes operating expenses and capital expenditures in excess of amounts reimbursed by SOA.

Financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired except those reported at fair value through profit or loss. If evidence exists, the measurement of impairment depends on the type of financial asset under review.

The impairments of unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured, are measured as the difference between the original carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets (if lower); this impairment loss cannot be reversed.

The impairments of assets carried at amortized cost are measured as the difference between the assets carrying amount and the present value of future cash flows discounted at the original effective interest rate. These impairment losses can be reversed if the decrease in impairment can be related objectively to an event occurring after the impairment was recognized.

Non-financial assets

Non-financial assets are assessed for indications of impairment or reversals of previous impairments at the end of each reporting period. If any indication of impairments exists, the recoverable amount of the asset is estimated and, if the carrying amount exceeds the recoverable amount, an impairment loss is recognized for the difference. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no transactions can be identified, an appropriate valuation model is used.

Impairment is measured for individual assets unless the asset does not generate separately identifiable cash inflows, in which case it is measured for the Cash Generating Unit ("**CGU**") that the asset belongs to. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

E&E assets are tested for impairment when indicators of impairment exist or when technical feasibility and commercial viability are established and the assets are reclassified to P&E. E&E assets are allocated to related CGUs when they are assessed for impairment. E&E assets that are determined not to be technically feasible and commercially viable are charged to profit or loss.

A previously recognized impairment loss (on assets other than goodwill) is reversed to the extent that the events or circumstances that triggered the original impairment have changed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of DD&A, had no impairment loss been recognized for the asset in prior years.

Share-based payments

Share-based payment costs attributed to all share options granted to employees, directors and service providers are measured at fair value at the date of grant using an option pricing model and expensed over the vesting period with a corresponding increase to employee benefits reserve. Upon exercise of stock options, the consideration received, together with the amount previously recognized in share-based payments reserve, is recorded as an increase to common stock and paid in capital.

Income taxes

Income tax is recognized through profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity. The Company uses the asset and liability method to account for income taxes. Under this method, deferred income taxes are based on the difference between assets and liabilities reported for financial accounting purposes from those reported for income tax. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Deferred income tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered due to the uncertainty of timing or to the extent that other events not directly controlled by the Company must occur to allow future asset recovery. Deferred tax assets and tax liabilities are offset to the extent there is a legal right to settle on a net basis.

Revenue recognition

Revenue from sales of crude oil, natural gas and natural gas liquids (together the "**Petroleum**") is recognized when the significant risks and rewards from ownership have been transferred. This occurs when the product is physically delivered, the tittle passes to the buyers and collection is reasonably assured. Revenue represents the Company's entitlement of Petroleum production marketed by SOCAR pursuant to the ERDPSA after in-kind production volumes delivered to SOCAR as Compensatory Petroleum ('**CP**") and the government's share of profit petroleum. Entitlement of Petroleum production means the share of Non-Compensatory Petroleum ('**NCP**") each ERDPSA party has the right and obligation to own, lift and dispose of at the ERDPSA specified delivery points for sale.

The Company's share of entitlement Petroleum production recognized as revenue represents the aggregation of the Company's 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.

Management service fees represent revenue for administrative, operational and technical support provided at cost to Bahar Energy and BEOC. Such support is provided either through third parties or the Secondment of Company employees to BEOC. The management fees are recognized when earned and when ultimate collection is reasonably assured. As result of the Acquisition Transaction on August 9, 2016, the Company discontinued the recognition of management fees and its related party receivables have been eliminated in consolidation.

Decommissioning liabilities

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects the current market assessment of the time value of money and the risks specific to the liability. When the Company's activities give rise to dismantling, decommissioning and site remediation costs as a consequence of retiring tangible long-life assets such as producing well sites and facilities, a provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing or costs of decommissioning, or in the discount rate, are recognized prospectively by recording an adjustment to the decommissioning obligation, and a corresponding adjustment to the properties. The unwinding of the discount on the decommissioning cost is included as a finance cost.

Leases

The Company classifies leases entered into as either finance or operating leases. Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as finance leases, which are capitalized and are amortized on a straight-line basis over the period of expected use. Rental payments under operating leases are expensed as incurred.

Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of in-the-money stock options would be used to purchase common shares at the average market price during the period.

Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories:

- fair value through profit or loss ("**FVTPL**")
- loans and receivables
- held-to-maturity investments
- available for-sale financial assets or
- other financial liabilities

Subsequent measurement of financial instruments is based on their initial classification. Financial assets and financial liabilities are either classified as FVTPL or "designated at fair value through profit or loss" and are measured at fair value and changes in fair value are recognized in profit or loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are measured at amortized cost using the effective interest rate method.

Transaction costs related to financial assets and liabilities at fair value through profit or loss are recognized in profit or loss when incurred transaction costs are added to the fair value of the all other financial instruments on initial recognition.

Derivative instruments are carried at fair value and reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments or contractual arrangements. Derivatives embedded in other instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a free standing derivative and the combined contract is not held for trading. When the Company is unable to measure the fair value of the embedded derivative separately, the combined contract is treated as a financial asset or liability that is FVTPL and measured at fair value with changes therein recognized in profit or loss.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Company and its subsidiaries, joint ventures and partnerships have a U.S. dollar functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of that asset. Borrowing costs are capitalized by applying interest rates attributable to the project being financed and includes both general and specific borrowings. Interests rates applied from general borrowings are computed using the weighted average borrowing rate for the period.

Critical judgments, estimation uncertainty and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the consolidated statement of financial position as well as the reported amounts of revenues and expenses during the years presented. Estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant judgments and estimates made by management in the preparation of these consolidated financial statements are as follows:

a) Cash generating units

The determination of cash generating units requires the Company to identify the lowest grouping of integrated assets that generate cash inflows which are largely independent of the cash inflows of other assets or group of assets. The classification of assets into CGUs requires significant judgement and interpretation with respect to shared infrastructure, geographical proximity, similar exposure to market risk and materiality. Accordingly, the Company has grouped its share of operating results from oil and gas activities under the ERDPSA into a single cash generating unit.

The Company controls the preparation of ERDPSA budgets and work plans. In addition, through separate forecast calculations, impairment assessments are carried out for this CGU based on ERDPSA's cash flow forecasts calculated based on independently determined proven and probable reserves.

b) Functional currency

The determination of the Company's functional currency requires an assessment of the currency influencing their operating regulatory environment in the countries the Company operates in, sales prices for goods and services, operating costs, sources of financing and the currency in which receipts from operating activities are usually retained. The Company's operations in connection with the Bahar Project in Azerbaijan are influenced by the ERDPSA requirements that annual budgets, petroleum tax reporting and settlements as well as accounting records are to be maintained and reported to local government authorities in U.S. dollars. This is also the currency influencing the funding provided by partners, the sales agreements for oil and natural gas, major operating expenditures and the majority of working capital maintained by the Bahar Project. Based on these factors, the Company has maintained the U.S. dollar as the functional currency.

c) Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Company to assess their rights and obligations arising from the arrangement including whether the arrangement is structured through a separate vehicle, in which case, judgment is also required to assess the rights and obligations arising from the legal form of the separate vehicle, terms of the contractual arrangement and other relevant facts and circumstances. This assessment often requires significant judgment, and a different conclusion on joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

Before the completion of the Acquisition Transaction on August 9, 2016, the Company owned 33.33% interest in Bahar Energy, an entity governed by its Articles of Association and the Bahar Shareholders Agreement ("**BSA**") which includes basic formation and governance provisions. The BSA was created so that all shareholders participate equally in the decision-making process and related approvals associated with the Bahar Project. Unanimous consent of the shareholders was required for any resolution to be passed. Based on these facts and circumstances, the Company determined that the BSA represented a joint arrangement structured through Bahar Energy, a separate entity whose legal existence created separation between the jointly controlling parties in the arrangement and the assets and liabilities of Bahar Energy. Consequently, Bahar Energy satisfied the definition of a *Joint Venture* pursuant to which the Company had contractually agreed to the sharing of control and thus represented a joint venturer under the arrangement. Therefore, the Company's 33.33% interest in Bahar Energy before the completion of the Acquisition Transaction was disclosed as a Joint Venture and accounted for using the equity method.

d) Decommissioning liabilities

Should the Company have contractual obligations to incur decommissioning costs at the end of the operating life of certain facilities and properties, provisions will be established. A provision is recognised when an obligation (legal or constructive) exists to remove and remediate as a consequence of the decommissioning of facilities and properties. The interpretation of contracts and regulations is required by management as to what constitutes removal and remediation and significant judgment is also required to determine whether the Company has the obligation to estimate and recognize a provision to account for future decommissioning costs.

In accordance with the ERDPSA, title to fixed and moveable assets employed by the Contractor Parties is to be transferred to SOCAR upon the earlier of: a) the end of the Calendar Quarter following the cost recovery of Capital Costs, or b) the termination of the ERDPSA (regardless of cost recovery). Notwithstanding this requirement, the Contractor Parties do have the obligation to contribute to an Abandonment Fund (the "**Fund**") for the retirement of assets managed under the agreement.

With respect to the Contract Rehabilitation Area, the funding obligation will begin on July 1, 2021 based on a predetermined formula accruing on each BOE produced after July 1, 2021. The Contractor Party's obligation is limited to a contribution of up to 15% of the cumulative capital costs incurred during the term of the ERDPSA. In relation to the Contract Exploration Area, no contribution to the Fund will be required until there has been a commercial discovery and cumulative production from this contract area reaches 50% of the recoverable reserves identified in the development plan. At that time, the same funding procedures noted for the Contract Rehabilitation Area will be employed.

At the termination of the ERDPSA, or earlier if the Contractor Parties elect to abandon a fixed asset, SOCAR must elect whether it wishes to take ownership of the asset or have the Contractor Parties abandon the same. If SOCAR elects to take ownership of the asset, the Contractor Parties have no further liability of any kind with regard to the asset. If SOCAR does not elect to take ownership of the asset, an appropriate portion of the Fund will be transferred to the Contractor Parties for the purpose of abandoning the asset. If upon termination of the ERDPSA, if there are not sufficient amounts in the Fund for the Contractor Parties to abandon the assets for which they are responsible, the Contractor Parties are required to expend all of the amounts in the Fund, but thereafter may cease abandonment operations and have no further abandonment obligations or liabilities.

Based on these facts and circumstances, Bahar Energy will fund contributions to the Fund when the financial obligation is contractually due beginning on July 1, 2021, therefore no decommissioning provisions are recorded by the Company. Per the ERDPSA, the systematic contributions to the Fund will be recorded as operating expenses subject of cost recovery.

e) Exploration and evaluation

The application of the Company's accounting policy for E&E expenditures requires judgment to determine whether future economic benefits are likely from commercial exploitation of hydrocarbon reserves or whether activities have reached a stage which permits a reasonable assessment of the existence of recoverable reserves. The Bahar Project relates to mature oil and natural gas producing areas in Azerbaijan, underdeveloped during the Soviet era, over which new investments are required to increase production and enhance recovery of existing reserves. To date, Bahar Energy E&E expenditures have been related to pre-license costs, geological and geophysical expenditures, and lease rentals of undeveloped properties. No potential oil or natural gas resources have been identified through these efforts and therefore the Company has expensed all costs incurred as E&E expenditures.

f) Fair value measurement

The Company measures the fair value of financial instruments at each statement of financial position date. See *Note 24 – Financial Instruments and Financial Risk Management* for fair values of financial instruments measured at amortized cost. The Company uses valuation techniques and makes judgments to determine how relevant and sufficient data should be in measuring fair value. Changes in estimates and assumptions could affect the reported fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The recoverable amounts of the Company's CGUs have been determined based on the higher of value-in use calculations and fair values less cost to sell. The fair value of the Company's investment in the Bahar Project is estimated based on the net present value of proved plus probable reserves using a pre-tax discount rate of 10% as determined by independent qualified reserves evaluators.

g) Deferred taxes

Judgment is required to determine whether the Company will recognize deferred tax assets in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require assessment of the likelihood that the Company will generate sufficient taxable income in future periods, in order to utilize recognized deferred tax assets. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. The generation of future taxable income depends on the Company's estimates of future earnings from its ownership in the Bahar Project. Future earnings could be affected by oil prices, the ability of the Company to materialize proved and probable reserves which requires significant development funding and re-investment of operating cash flows and other circumstances.

In 2011 the Company elected to derecognize its accumulated deferred tax asset but will continue to reassess the unrecognized deferred tax asset at the end of each reporting period. *See Note 21 – Deferred Income Taxes*.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has not adopted new IFRS standards or amendments during the year ended December 31, 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. However, the Company is evaluating and intends to adopt the following new standards, if applicable, when they become effective:

IFRS 9 "Financial Instruments"

In July 2014, 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 Company has concluded IFRS 9 will not have a material impact on its consolidated financial statements and intends to adopt the new standard beginning on January 1, 2018.

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 Company has concluded IFRS 15 will not have a material impact on its consolidated financial statements and intends to adopt the new standard beginning on January 1, 2018.

IFRS 2 "Share-based Payment Transactions – Amendments"

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment Transactions* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice regarding: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Upon adoption, entities are required to apply these amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company plans to adopt the new standard at the effective date and does not expect a significant impact on its consolidated financial statements.

IFRS 16 "Leases"

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

IFRIC 23 "Uncertainty over Income Tax Treatments"

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 Company is assessing the impact of IFRIC 23 on its consolidated financial statements.

6. ACCOUNTS RECEIVABLE

Accounts receivable are mainly from sales of crude oil and natural gas under the ERDPSA. The receivables are non-interest bearing and generally collected on 30 to 60 day terms. The Company had the following outstanding accounts receivable balances:

(US$000's)	December 31, 2017	December 31, 2016
Crude oil	2,172	2,089
Natural gas	5,559	6,488
Related party receivables (1)	918	-
Other receivables (2)	971	199
	9,620	8,776

(1) Represents receivable balance from SOA. See *Note 19 – Segment Reporting*.
(2) Includes value added taxes paid in advance on natural gas sales, and other employee and miscellaneous receivables.

7. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2017, the Company recorded $nil (December 31, 2016 - $0.8 million, respectively) in management service fees associated with services provided at cost to BEL and BEOC before the Acquisition. The related party receivables resulting from such management service fees have been eliminated in consolidation.

Obligations with Vitol's subsidiaries

As at December 31, 2017, the Company had an Accounts Payable Related Parties balance of $2.0 million (December 31, 2016 - $nil). The balance consists of funds owed to Vitol subsidiaries in connection with a $1.4 million restructuring fee under the Twelfth Amending Agreement (see *Note 13 - Long Term Loan Related Party*) and $0.6 million in fees for technical consulting services.

Compensation of key management personnel

The Company's key management personnel include directors to the board and executive officers. Compensation paid in accordance with the Company's compensation committee guidelines includes the following:

US$000's	December 31, 2017	December 31, 2016
Short-term benefits	1,389	2,125
Share-based payments	13	132
	1,402	2,257

8. INVENTORIES

As at December 31, 2017, the Company had operating inventories of $2.5 million (December 31, 2016 - $1.2 million) consisting of spare parts, consumables, lubricants and fuel. Inventories are stated at the lower of cost or net realizable value.

9. INVESTMENT IN JOINT VENTURE

Before the completion of the Acquisition Transaction on August 9, 2016, the Company owned a 33.33% interest in Bahar Energy, a 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	2,305
At December 31, 2015	62,077
Share of Income from Joint Venture at Acquisition	992
At August 8, 2016	63,069
Less:	
Value of investment allocated to consideration for Acquisition	(63,069)
At December 31, 2016	-

10. PROPERTY AND EQUIPMENT, NET

(US$000's)	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2016	191,102	346	191,448
Additions	8,422	1	8,423
As at December 31, 2017	199,524	347	199,871
Less: Accumulated DD&A			
As at December 31, 2016	4,019	336	4,355
Additions	8,793	4	8,797
As at December 31, 2017	12,812	340	13,512
Net property and equipment			
As at December 31, 2016	187,083	10	187,093
As at December 31, 2017	186,712	7	186,719

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. In accordance with the terms of the ERDPSA, contractor parties and BEOC were 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.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	December 31, 2017	December 31, 2016
Trade accounts payable [1]	11,391	11,660
Accrued liabilities	2,917	2,032
	14,308	13,692

[1] Trade accounts payable mainly consists of trade payables related to BEOC, the operating company under the ERDPSA.

12. 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 1.2 Common Shares for each USD$1.00 of principal amount loaned to the Company which value is accreted over the life of the loans. 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 March 2018 the maturity of the loans was extended to July 31, 2018. See *Note 26 – Subsequent Events*. The balance of the Short Term Loans Related Parties is as follows:

US$000's	December 31, 2017	December 31, 2016
Related Party Loans - Insiders	550	550
Unamortized share consideration	(20)	(88)
Carrying value short term loans related parties	530	462
Accrued interest [1]	85	18
Short term loans related parties [2]	615	480

[1] For the year ended December 31,2017, the Company recorded interest expense and accretion of $135 thousand (December 31, 2016 - $36 thousand).
[2] The related party loans – insiders were included within long term loans related party at December 31, 2016 and were reclassified to short term in 2017 due to their March 31, 2018 maturity date. In March 2018 the maturity date was further extended to July 31, 2018.

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**"). The terms and consideration paid for the Additional Loans are similar to the Related Party Loans – Insiders. 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%. In March 2018 the maturity of the loans was extended to July 31, 2018. See *Note 26 – Subsequent Events*. The balance of Additional Loans is as follows:

US$000's	December 31, 2017	December 31, 2016
Additional Loans	2,475	2,475
Unamortized share consideration	(90)	(397)
Carrying value of short term loans	2,385	2,078
Accrued interest (3)	394	90
Additional Loans (4)	2,779	2,168

(3) For the year ended December 31, 2017, the Company recorded interest expense and accretion of $611 thousand (December 31, 2016 - $171 thousand).
(4) The Additional Loans at December 31, 2016 were classified as long term loans and subsequently reclassified as short term loans in 2017 due to their March 31, 2018 maturity date. In March 2018 the maturity date was further extended to July 31, 2018.

13. 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, 75,404,975 Common Shares in the capital of the Company and 75,404,975 Warrants; and (ii) to Ingalls & Snyder LLC (**"I&S"**), a lender under the Vitol loan, 10,574,942 Common Shares and 10,574,942 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$0.21 (USD$0.16) per common share. For the year ended December 31, 2016 the Company recorded Other Financing Costs of $13.9 million (December 31, 2015 - $nil) for the value of 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.

On March 16, 2017, the Company entered into the Tenth Amending Agreement 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 June 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 to the loan agreement dated November 25, 2013. Pursuant to the Amendment: (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; (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 75,404,975 common share purchase warrants held by Vitol Energy (Bermuda) Ltd. and the 10,574,942 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. The balance of the long term loan related party is as follows:

US$000's	December 31, 2017	December 31, 2016
Long term loan related party-Vitol	47,146	41,148
Unamortized debt issue costs [(1)]	(1,176)	-
Carrying value of long term loan related party-Vitol	45,970	41,148
Accrued interest [(1)]	976	1,821
Long term loan related party	46,946	42,969

(1) For the year ended December 31, 2017, the Company recorded interest expense and accretion of $1.2 million (December 31, 2016 interest expense only - $1.8 million).

As consequence of terminating the common share purchase warrants previously issued to the Lender and the derecognition of the respective liability, for the year ended December 31, 2017, the Company recorded income of $546 thousand (December 31, 2016 – expense of $546 thousand).

14. SETTLEMENT OF LONG TERM LOAN-2

On June 27, 2014, the Company closed a $21 million loan facility ("**Loan-2**") with Heaney. At December 31, 2015 the Company had completed drawdown of $20.8 million on Loan-2. 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 Shareholders' Agreement to meet the capital needs of the Bahar Project. Loan-2 incurred a 0.15% commitment fee and accrued interest at a rate of 12% per annum compounded quarterly, both principal and accrued interest matured on June 30, 2018.

On April 12, 2016, the Company entered into the Definitive Agreement with Heaney to settle all amounts outstanding under Loan-2 which included principal in the amount of $20.8 million and accrued interest. Pursuant to the Definitive Agreement, on September 9, 2016 Greenfields issued 11,500,000 Common Shares to Heaney at a price of CAD$0.21 (USD$0.16) per common share for the aggregate amount of $1.9 million; paid a success fee to an agent for negotiating the terms of the Definitive Agreement which consisted of a cash payment of $1.0 million and the issuance of 500,000 Common Shares at a price of CAD$0.21 (USD$0.16) per common share with an aggregate value of $81 thousand.

The carrying value of Loan-2 at the settlement date of September 9, 2016 was as follows:

(US$000's)	September 9, 2016
Loan-2 advances	20,835
Accrued interest	5,155
Loan-2 principal and interest at settlement date	25,990
Value of common shares issued in settlement	(1,853)
Gain on settlement of Loan-2	24,137

For the year ended December 31, 2016, the Company recorded expenses in the amount of $1.1 million for the success fee paid in cash and common shares to an agent for negotiating the terms of the Definitive Agreement and recorded a gain of $24.1 million as result of the settlement of Loan-2.

15. SETTLEMENT OF CONVERTIBLE DEBENTURES

On May 30, 2012, the Company issued CAD$23.7 million of convertible unsecured subordinated Debentures for equivalent proceeds of $22.9 million. The Debentures paid a 9.0% annual interest rate 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 were to mature and be repayable on May 31, 2017 (the "**Maturity Date**"). Each CAD$1,000 Debenture principal amount could be converted, 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 resulted from a 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 had 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. 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 $9.0 million towards the balance of Default Loans due.

On June 30, 2016, after receiving further interest payment waivers from debentureholders, the Company deferred outstanding accrued interest payable until the earlier of; 30 days after the next November 30, 2016 interest payment due 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, the deferred interest payments accrued interest at 9.0% per annum.

In connection with the Restructuring Transaction, on August 18, 2016 the Company obtained the approval of debentureholders for the conversion of the CAD$23,725,000 in outstanding principal Debentures and accrued interest into 1,397 common shares for each CAD$1,000 face value Debenture. The Debentures were delisted from the TSXV on August 25, 2016 and the Debenture Conversion was completed on August 26, 2016 with a total of 33,143,825 common shares issued to former debentureholders at a price of CAD$0.30 (USD$0.23) per common share.

The carrying value of Debentures settled on August 26, 2016 consisted of the following:

(US$000's)	August 26, 2016
Value of Debentures	17,124
Accrued interest	3,027
Unamortized transaction costs	239
Unaccreted costs	962
Value of Debentures	21,352
Value of common shares issued at conversion	(7,680)
Gain on settlement of Debentures	13,672

For the year ended December 31, 2016, the Company recorded a gain of $13.7 million in connection with the settlement of the Debenture Conversion.

16. SHAREHOLDER'S EQUITY

Authorized Share Capital

Authorized share capital of the Company consists of 499,900,000 common shares and 100,000 preferred shares, each at US $.001 par value.

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 Company and preferential rights, of each series without further vote or action by shareholders.

There were no preferred shares issued and outstanding at December 31, 2017 and December 31, 2016. 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, 2016	156,859,180	101,009
Issued pursuant to private placements	20,656,831	3,062
Issued in satisfaction of debt	2,291,801	339
As at December 31, 2017	179,807,812	104,410

Per Share Information

Per share income (loss)		
(US$000's, except for per share amounts)	Year Ended December 31,	
	2017	2016
Weighted average number of common shares outstanding	169,040,735	65,464,178
Net income (loss) for the year	(9,068)	99,193
Basic and diluted income (loss) per share	($0.05)	$1.52

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 period that the equity instruments were outstanding. For the year ended December 31, 2017, 1,770,000 outstanding share options (December 31, 2016 – 1,120,000 share options and 85,979,917 outstanding warrants) were excluded from calculating dilutive income (loss) per share as they were anti-dilutive. As at December 31, 2017 and 2016, the Company did not hold any common shares in treasury.

Private Placements

On May 12, 2017, the Company completed a non-brokered private placement of 2,398,630 common shares of the Company at a price of CAD$0.20 per share (USD$0.146) for aggregate gross proceeds of $350 thousand. This placement included the participation of insiders of the Company to whom a total of 1,198,630 common shares of the Company were issued for proceeds of $175 thousand.

Also, on June 27, 2017, the Company completed a brokered private placement of 18,258,201 common shares of the Company at a price of CAD$0.20 per share (USD$0.148) for aggregate gross proceeds of $2.7 million. For the year ended December 31, 2017, the Company recorded $120 thousand in brokerage fees (December 31, 2016 - $nil).

At the time of these private placements, the lenders waived their rights to the vesting warrants relative to the new common shares issued to the investors. The warrants were subsequently terminated on October 31, 2017.

Common shares issued in satisfaction of debt

On June 27, 2017, the Company executed a debt settlement agreement with certain employees and consultants of the Company. Through this settlement the Company issued a total of 2,291,801 common shares of the Company in satisfaction of balances payable in the amount of $339 thousand. The common shares were issued at the deemed price of CAD$0.20 (USD$0.148) per common share.

17. SHARE BASED PAYMENTS

	Year Ended December 31,	
US$000's	2017	2016
Third party services - share settled	30	81
Share-based compensation – Employees and Directors		
Share settled - Share options	81	42
Cash settled - Contingent bonus [(1)]	(54)	5
Cash settled - Cash bonus awards [(1)]	4	99
Subtotal	31	146
Total share-based payments	61	227

[(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.

The share-based payments recorded by the Company are associated with share settled third party services, share options and share-based cash settled bonuses for employees and directors. Share-based payment expenses for the year ended December 31, 2017 were $61 thousand (December 31, 2016 - $227 thousand).

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 an option pricing model with the following assumptions:

	Year Ended December 31,	
	2017	2016
Risk-free interest rate range	0.5% - 2%	0.5% - 2%
Expected life range	1.1 - 5.0 years	1.1 - 5.0 years
Expected volatility range	40% - 87%	40% - 86%
Weighted average forfeiture rate	1.3%	1.7%
Weighted average fair value	$1.36	$1.81

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

Continuity of Stock Options

	December 31, 2017		December 31, 2016	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	1,120,000	2.09	1,187,083	2.27
Granted	650,000	0.29	400,000	0.24
Expired	-	-	(400,000)	0.35
Forfeited	-	-	(67,083)	3.10
Outstanding, end of period	1,770,000	1.49	1,120,000	2.09
Exercisable, end of period	820,000	2.89	791,250	2.87

On October 13, 2016, the Company granted options to acquire 400,000 common shares of the Company pursuant to its stock option plan to two contractors. The options are exercisable at a price of CAD$0.24 per share, the closing price on October 12, 2016, and vest 25% on the date of the grant and 25% on each of the first, second and third anniversaries of the grant date. The options will expire five years from the grant date.

On January 1, 2017, the Company granted options to acquire 650,000 common shares of the Company pursuant to its stock option plan, 450,000 of which were granted to officers of the Company. The options are exercisable at a price of CAD$0.29 per common share and will expire five years from the grant date. The options will vest 1/2 upon January 1, 2018 and 1/2 upon January 1, 2019.

The exercise prices of the outstanding share options ranges from CAD$0.24 to CAD$6.50 per common share with all options expiring on various dates between years 2018 and 2022. The exercisable options as at December 31, 2017 have remaining contractual lives up to 4.02 years.

For the year ended December 31, 2017, the Company recorded share options expense of $81 thousand (December 31, 2016 - $42 thousand). The share options expense is offset to the Company's share-based payment reserve.

Contingent Bonus

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 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 (the "**Deferred Payment Date**") for the contingent bonus has been deferred until the first to occur of the following: January 1, 2019; 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$0.28 (USD$0.21) 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 December 31, 2017 was $54 thousand (December 31, 2016 - $108 thousand). For the year ended December 31, 2017, the Company recorded a decrease of $54 thousand (December 31, 2016 – increase of $5 thousand) in the fair value of the contingent bonus liability.

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

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 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 years 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.

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 payment date (the "**Deferred Payment Date**") for both awards has been deferred until the first to occur of the following: January 1, 2019; 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 December 31, 2017 was $184 thousand (December 31, 2016 - $184 thousand).

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 an 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 adjustments recorded through profit and loss. The estimated ABCB liability at December 31, 2017 was $nil (December 31, 2016 - $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	(1)	-	-	-	-
Sept. 4, 2012	3,333	(1)	-	-	-	-
Oct. 5, 2012	6,667	(1)	-	-	-	-
Dec. 1, 2012	1,200	(1)	-	-	-	-
Dec. 24, 2012	90,000	160,000	3.50	160,000	Dec. 24, 2018	1.0
Jan.1, 2015	107,866	-	-	-	-	-
	247,400	160,000		160,000		

(1) A total of 166,100 ABCB units expired on various dates in 2017.

For the year ended December 31, 2017, the Company recorded restricted cash bonus expense of $nil (December 31, 2016 – $nil).

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 1,250,000 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. Notwithstanding the provisions of the FVDCB Program, payment of vested units will be deferred and will only occur after the director ceases to be a director of Greenfields.

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 a change of control of the Company, involuntary removal from the board, death or a monetization event, the bonus units will immediately vest.

The estimated FVDCB liability at December 31, 2017 was $102 thousand (December 31, 2016 - $99 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 year ended December 31, 2017, the Company recorded increases of $4 thousand (December 31, 2016 - $99 thousand) 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 11,025,000 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, the Company awarded an additional 730,000 KECIP units with similar vesting conditions to two employees and a contractor. No expense has been recorded for the issuance of the KECIP units as of December 31, 2017, as the related cash settlement value can only be determined when a monetization event takes place.

18. INTEREST INCOME AND INTEREST EXPENSE

	Year Ended December 31,	
US$000's	2017	2016
Interest income [(1)]	-	3,420
Interest expense – short term loan [(2)]	-	(3,743)
Interest expense – convertible debentures [(3)]	-	(3,310)
Interest expense – long term loan [(4)]	(5,391)	(3,750)
Interest expense – short term loans [(5)]	(747)	-
	(6,138)	(7,383)

[(1)] Interest income charged to Bahar Energy in connection with default loans. The accumulated interest was included as consideration paid for the Acquisition on August 9, 2016 and the related account receivable balance was extinguished.

[(2)] Interest expense on short term loan includes interest and amortization of transaction costs. The accumulated interest was included as part of the restructuring transaction dated August 19, 2016 and the related interest payable balance was extinguished.

[(3)] Interest expense on convertible debentures included accretion, coupon interest, amortization of transaction costs, and interest on defaulted payments. The accumulated interest was included as part of the debentures conversion dated August 26, 2016 and the related interest payable balance was extinguished.

[(4)] For 2017, represents interest expense and accretion related to the long term loan with Vitol. For 2016, represents interest expense on long term loan-2 and interest expenses on long term loans post restructuring. The accumulated interest payable was included as part of the loan settlement transaction dated September 9, 2016, therefore the related account payable balance was extinguished.

[(5)] Represents interest and accretion expense related to the current short term loans. In March 2018, the lenders agreed to extend the maturity of short term loans from March 31, 2018 to July 31, 2018. See *Note 26 – Subsequent Events*.

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19. 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. With the closing of the Acquisition on August 9, 2016, BEL became a wholly-owned subsidiary of the Company resulting in the consolidation of the operating results of BEL post acquisition date. Prior to the Acquisition, the Company's 33.33% share of BEL was accounted for under the equity method of accounting and reported separately as income or loss on Investment in Joint Venture in the Consolidated Statements of Comprehensive Income (Loss) of the Company.

Total Assets and Liabilities

(US$000's)	December 31, 2017			December 31, 2016		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	13,121	757	13,878	11,781	467	12,248
Capital assets	186,711	8	186,719	187,084	9	187,093
Total assets	199,832	765	200,597	198,865	476	199,341
Current liabilities	(13,324)	(6,427)	(19,751)	(11,438)	(2,254)	(13,692)
Non-current liabilities	-	(46,946)	(46,946)	-	(46,163)	(46,163)
Total liabilities	(13,324)	(53,373)	(66,697)	(11,438)	(48,417)	(59,855)

Capital Expenditures

	Year Ended					
(US$000's)	December 31, 2017 [1]			December 31, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	8,422	1	8,423	1,133	11	1,144

[1] Capital expenditures for the Azerbaijan segment are disclosed on an accrual basis.

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Consolidated Statements of Comprehensive Income (Loss) by Segment

	Year Ended					
(US$000's)	December 31, 2017			December 31, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	29,446	-	29,446	14,422	-	14,422
Management services fees [1]	-	-	-	-	809	809
	29,446	-	29,446	14,422	809	15,231
Expenses						
Operating	20,887	-	20,887	12,216	-	12,216
Marketing and transportation	107	-	107	52	-	52
Administrative	-	3,093	3,093	106	5,446	5,552
Depreciation and amortization	8,796	2	8,798	4,019	2	4,021
	29,790	3,095	32,885	16,393	5,448	21,841
Income (loss) from operating activities	(344)	(3,095)	(3,439)	(1,971)	(4,639)	(6,610)
Income from fair value of future dividends	-	-	-	-	8,467	8,467
Gain on acquisition	-	-	-	-	81,524	81,524
Gain on settlement of LT Loan	-	-	-	-	24,137	24,137
Gain on settlement of debentures	-	-	-	-	13,672	13,672
Other financing costs	-	-	-	-	(13,854)	(13,854)
Fair value of warrants	-	546	546	-	(546)	(546)
Income on investment in Joint Venture	-	-	-	992	-	992
Interest income	-	-	-	-	3,420	3,420
Interest expense	-	(6,138)	(6,138)	-	(10,803)	(10,803)
Foreign exchange loss	-	(37)	(37)	-	(1,206)	(1,206)
Net income (loss)	(344)	(8,724)	(9,068)	(979)	100,172	99,193

(1) For the year ended December 31, 2017, the Company recorded $nil (December 31, 2016 - $0.8 million) in management service fees for management, administrative and technical support services provided at cost to BEL and BEOC before the Acquisition.

Revenues

During the year ended December 31, 2017, BEL's crude oil and natural gas production entitlement volumes were marketed through SOCAR, the State Oil Company of Azerbaijan. Prior to the Acquisition on August 9, 2016, the Company's 33.33% share of BEL's crude oil and natural gas entitlement revenues was recorded as Income or loss in Investment in Joint Venture in the Consolidated Statements of Comprehensive Income (Loss).

BEL's share of entitlement Petroleum production 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 year ended December 31, 2017, the Company recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Year Ended December 31,	
US$000's	2017	2016
BEL's share of Petroleum entitlement production	23,568	11,655
SOA's cost recovery Petroleum production	5,878	2,767
BEL's entitlement revenue	29,446	14,422

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 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.

The Company recorded SOA's 20% share of Petroleum Costs overfunded by BEL as impairment expense of $2.9 million for the year ended December 31, 2016. During 2017 the Company is recording SOA's 20% share of costs as if SOA is still under Carry 1 provisions, but net of SOA's funding from Protocol Proceeds. Accordingly, SOA's 20% share of costs in excess of amounts reimbursed by SOA are recorded in the statements of financial position and comprehensive net income (loss) as capitalized expenditures and operating expense. To conform to current year presentation, the Company has reclassified the previously reported impairment expense as operating expense. This change in presentation had no effect on comprehensive net income (loss) for the year ended December 31, 2016.

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, due to SOA's insufficient funding of their share of capital expenditures, which are added to the Carry 1. For the years ended December 31, 2017 and 2016, the Company recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Year Ended December 31,	
US$000's	2017	2016
BEL's 80% share of capital expenditures	7,277	906
SOA's 20% share of capital expenditures	1,820	227
Less: Protocol Proceeds		
Profit petroleum	(56)	-
Value of SOCAR's Compensatory petroleum	(619)	-
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	1,145	227
Total capital expenditures	8,422	1.133

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, due to SOA's insufficient funding of their share of operating costs, which are added to the Carry 1. For the years ended December 31, 2017 and 2016, the Company recognized operating costs from BEL's participation in the ERDPSA as follows:

	Year Ended December 31,	
US$000's	2017	2016
BEL's 80% share of operating costs	18,097	9,733
SOA's 20% share of operating costs	4,524	2,483
Less: Protocol Proceeds		
Profit petroleum	(145)	-
Value of SOCAR's Compensatory petroleum	(1,589)	-
BEL's net overfunding of operating costs (SOA's funding deficiency)	2,790	2,483
Total operating costs	20,887	12,216

In relation to Protocol Proceeds, the Company recorded a related party receivable from SOA in the amount of $2.4 million. After collections of $1.5 million, at December 31, 2017, the Company had a receivable balance of $918 thousand (December 31, 2016 - $nil) consisting of uncollected Protocol Proceeds. See *Note 6 – Accounts Receivable*.

At December 31, 2017, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $3.9 million (December 31, 2016 - $2.9 million). 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 December 31, 2017 the balance of Carry 1 is as follows:

US$000's	
Carry 1 - Opening Amount at January 1, 2017	39,672
SOA's share of capital expenditures funded by BEL	1,820
SOA's share of operating costs funded by BEL	4,524
Protocol Proceeds	(2,409)
SOA's share of cost recovery Petroleum production	(5,878)
Carry 1 - Outstanding Amount at December 31, 2017 (1)	37,729

(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.

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,	
US$000's	2017	2016
Trade receivables	(914)	1,635
Advances for operating activities	(29)	144
Other receivable	-	(123)
Prepaid expenses and deposits	(37)	(31)
Inventories	(1,305)	18
Accounts payable and accrued liabilities	(4,827)	-
Accounts payable related party	2,049	(864)
	(5,063)	779

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21. DEFERRED INCOME TAXES

The provision for income taxes differs from the result that would have been obtained by applying the U.S. federal income tax rate of 35% to the loss before income taxes. The difference results from the following items:

US$000's	Year Ended December 31, 2017	Year Ended December 31, 2016
Comprehensive income (loss) before income taxes	(9,068)	99,193
U.S. federal corporate income tax rate	35%	35%
Expected income tax (recovery) expense computed at statutory rates	(3,174)	34,717
Add (deduct) the tax effect of:		
Non-taxable / deductible items	4	346
Acquisition transaction	-	(32,694)
Debt Restructuring	(191)	(7,827)
Deferred income tax (recovery) expense per calculation	(3,361)	(5,458)
Derecognition of deferred tax asset for current year	3,361	5,458
Deferred income tax (recovery) expense per statements	-	-
Current year deferred income taxes consist of:		
Current tax (recovery)	(3,296)	(5,243)
Deferred tax (recovery)	(65)	(215)
Deferred income tax (recovery) before tax asset derecognition	(3,361)	(5,458)
Deferred tax asset not brought to account	3,361	5,458
Deferred income tax expense (recovery)	-	-

Deferred Income Tax Asset

The components of the Company's unrecognized deferred tax assets arising from temporary differences and loss carryforwards as well as the associated amount of deferred tax recovery or expense recognized in the Company's statements of operations and comprehensive income are as follows:

Continuity of net deferred income tax asset (liability)

US$000's	Recognized in profit or loss	Recognized in equity	Total
As at December 31, 2016	(5,458)	11	(5,447)
Derecognition of deferred tax asset	5,458	(11)	5,447
As at December 31, 2016 after derecognition	-	-	-
Current loss carry-forward	(3,361)	-	(3,361)
As at December 31, 2017	(3,361)	-	(3,361)
Derecognition of deferred tax asset	3,361		3,361
As at December 31, 2017 after derecognition	-	-	-

At December 31, 2017, the Company has cumulative loss carry-forwards of approximately $44.1 million that will expire between the years 2034 and 2037. The Company expects to be able to fully utilize these losses and the associated deferred tax asset noted above but has elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured. During

December 2017, the US enacted the Tax Cuts and Jobs Act of 2017 (the "**2017 Tax Act**"), which substantially reduced the federal tax rate for US corporations from 35% to 21% commencing in 2018. The Company has previously recorded an allowance to fully derecognize its cumulative deferred tax asset determined under the previous statutory federal income tax rate of 35%. As of December 31, 2017, the remeasurement of the cumulative deferred tax asset using the newly enacted statutory federal tax rate of 21% resulted in a reduction of approximately $6.2 million. Accordingly, the allowance to derecognize the cumulative deferred tax assets has been adjusted.

22. EXPENSES BY NATURE

US$000's	Year ended December 31, 2017	Year ended December 31, 2016
ADMINISTRATIVE		
Employee wages and benefits	1,613	2,272
Share-based payments	61	227
Professional service costs	716	2,576
Office, travel and other	703	477
Total expenses by nature	3,093	5,552

23. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2017:

US$000's	**2018**	**2019**	**Thereafter**
Operating leases (1)	47	23	-
Short term loans – interest (2)	817	-	-
Short term loans – principal (2)	3,025	-	-
Long term loans – interest (3)	-	-	12,568
Long term loans – principal (3)	-	7,500	39,646
Long term loans – restructuring fee (4)	1,414	-	-
	5,303	7,523	52,214

(1) The Company has leased office space for its corporate headquarters in the United States through June 2019.
(2) Represents outstanding principal and accrued interest for short term loans which maturity was extended from March 31, 2018 to July 31, 2018. *See Note 26 – Subsequent Events*.
(3) Represents long term loan contractual principal payment obligations in 2019 and at maturity date of January 15, 2020 as well as accrued interest also due at maturity.
(4) Represents a 3% structuring fee on the Restructured Amount per the 12th Amendment to the Loan Agreement with the Lender to be payable by the Company on or before November 1, 2018.

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 technical studies are underway to optimize work programs, the Company expects to only approve budgets that can be fully funded from project operating cash flows.

24. 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 December 31, 2017, the Company's accounts receivable primarily consists of receivables from crude oil and natural gas sales to SOCAR. The Company has not experienced significant collection issues with its crude oil and natural gas accounts receivable. However, in early 2017, SOCAR payments for natural gas sales were delayed which resulted in some outstanding receivables exceeding 60 days. Although SOCAR continued experiencing liquidity issues due to the significant impact of lower oil prices on Azerbaijan's economy, natural gas invoice payments are gradually returning to the normal range of 30 to 60 days. Consequently, the Company discontinued the actions initiated in connection with the notice of dispute sent to SOCAR in July 2017. At December 31, 2017, receivables from natural gas sales had an average of 33 days outstanding. All receivable balances are considered by management to be collectable at December 31, 2017.

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 December 31, 2017 and 2016 is as follows:

US$000's	December 31, 2017	December 31, 2016
Cash and cash equivalents	741	1,361
Trade receivables	9,620	8,776
Advances for operating activities	830	802
	11,191	10,939

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 $0.7 million does not allow for meeting 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 period expenditure budgets and forecasts, 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 December 31, 2017 and December 31, 2016 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 following table summarizes the remaining contractual maturities of the Company's financial liabilities at December 31, 2017:

Liquidity Risk	December 31, 2017				December 31, 2016
US$000's	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities (1)	14,308	-	-	14,308	13,692
Accounts payable related party (2)	2,049	-	-	2,049	-
Short term loans – interest (3)	817	-	-	817	8,537
Short term loans - principal (3)	3,025	-	-	3,025	44,173
Long term loans – interest (4)	-	12,568	-	12,568	-
Long term loans – principal (4)	-	47,146	-	47,146	-
	20,199	59,714	-	79,913	66,402

(1) As at December 31, 2017 and 2016, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.
(2) Accounts payable related party consists of obligations with Vitol's subsidiaries. Amount includes $1.4 million in loan restructuring fees and $600 thousand in technical consulting fees.
(3) Represents outstanding principal and accrued interest for short term loans which maturity was extended from March 31, 2018 to July 31, 2018. See *Note 26 – Subsequent Events*.
(4) Represents principal and accrued interest estimated through maturity for long term loans maturing January 15, 2020.

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 December 31, 2017 and 2016, 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, which was effective April 1, 2017, and sets the natural gas price at $2.69/mcf for the next five years. 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 December 31, 2017 and 2016, 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 + 11%. A 1% increase in LIBOR would increase interest expense approximately $1.0 million over the remaining life of the loan.

Fair value of financial instruments

The fair values of financial instruments as at December 31, 2017 and 2016 are disclosed below by financial instrument category as follows:

		December 31, 2017		December 31, 2016	
US$000's	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at FVTPL					
Cash and cash equivalents	1	741	741	1,361	1,361
Loans and receivables					
Trade Receivables	-	9,620	9,620	8,776	8,577
Advances for Operating activities	-	830	830	802	802
Other financial liabilities					
Accts payable and accrued liabilities [(a)]	-	13,967	13,967	13,300	13,300
Accts payable related party	-	2,049	2,049	-	-
Short term loans	3	3,394	3,394	-	-
Long term loans	2	46,946	46,946	45,617	45,617
Liabilities at FVTPL					
Share based bonus	2	341	341	392	392
Warrants	2	-	-	546	546

(a) The accounts payable and accrued liabilities mainly consist of trade payables related to BEOC. Excludes Share based bonus classified as Liabilities at FVTPL.

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.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short and long term loans are a reasonable estimate of their fair values due to their short duration. There were no Corporation financial instruments measured at fair value on a recurring basis at December 31, 2017 and 2016.

25. 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	December 31, 2017	December 31, 2016
Working Capital	(5,873)	(1,444)
Long term debt and shareholders' equity	180,846)	185,103
Ratios of working capital to long term debt and shareholders' equity	(3%)	(1%)

26. SUBSEQUENT EVENTS

Maturity extension of short term loans

In March 2018, the Company and its short term loan lenders agreed to extend the maturity of $3.0 million in outstanding principal and $0.6 million in accrued interest from March 31, 2018 to July 31, 2018.