GREENFIELDS PETROLEUM CORPORATION

Management's Discussion and Analysis

For the quarter and year ended December 31, 2017

(U.S. Dollars)

Management's Discussion and Analysis

This Management's Discussion and Analysis ("**MD&A**") for Greenfields Petroleum Corporation ("**Greenfields**" or the "**Corporation**") should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2017 and 2016. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Additional information relating to Greenfields is available on SEDAR at www.sedar.com and on the Corporation's website at www.greenfields-petroleum.com. Unless stated otherwise, all financial measures are expressed in USD and all values presented in thousands of USD. This document is dated April 13, 2018.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding Greenfields set forth in this report includes forward looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements.

The Corporation has based these forward-looking statements on certain key expectations and assumptions made by Greenfields, including expectations and assumptions concerning: future events and financial trends that the Corporation believes may affect its financial condition; the Corporation's results of operations, the Corporation's business strategy; the Corporation's financial needs; the Corporation's ability to continue to locate satisfactory properties for participation; the Corporation's ability to obtain debt and equity financing on suitable terms to execute its business strategy; the price of oil and natural gas in the future; the marketability of the Corporation's products; the availability and access to drilling and related equipment; the availability of suitable personnel to execute the Corporation's business strategy; the continued demand for oil and natural gas; royalty regimes and exchange rates; and the creditworthiness of industry partners.

Although Greenfields believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Greenfields can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with: the oil and gas industry in general (e.g., operational risks in development, exploration and production, the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); constraint in the availability of services; commodity price and exchange rate fluctuations; adverse weather or break-up conditions; and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Other sections of this MD&A may include additional factors and risks which could adversely affect our business and financial performance. Additionally, the Corporation operates in a very competitive and rapidly changing environment. New risks and factors emerge from time to time and it is not possible for our management to predict all risks and factors, nor can management assess the impact of all risks and factors on Greenfields' business or the extent to which any risk or factor, or combination of risks or factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

BUSINESS OF THE CORPORATION AND OPERATIONS

The Corporation is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves in the Republic of Azerbaijan ("**Azerbaijan**").

The board of directors (the "**Board**") and management of the Corporation are experienced in financing, developing and operating international oil and gas fields, and possess the requisite technical skills and business acumen to operate in diverse international environments.

The Corporation 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 Corporation 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: (i) the Bahar Gas Field (the "**Bahar Gas Field**") and the Gum Deniz Oil Field (the "**Gum Deniz**" and together with the Bahar Gas Field, the "**Contract Rehabilitation Area**"); and (ii) 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 under the ERDPSA.

Prior to August 9, 2016, BEL was owned 33.33% by the Corporation and 66.67% by Baghlan Group Limited ("**Baghlan**"). On August 9, 2016, the Corporation, through its wholly-owned subsidiary Greenfields Petroleum International Company Ltd. ("**GPIC**"), completed the acquisition of Baghlan's interest in BEL (the "**Acquisition**"). Upon completion of the Acquisition, BEL became a wholly-owned subsidiary of the Corporation.

Fourth Quarter 2017 and Year-to-Date 2017 Financial Results and Operating Highlights

- BEL's entitlement sales volumes for the fourth quarter 2017 averaged 549 bbl/d for crude oil and 16,214 mcf/d for natural gas or 3,252 boe/d and 626 bbl/d and 16,628 mcf/d or 3,397 boe/d year-to-date 2017. As compared to the same quarter in 2016, average entitlement sales volumes decreased 15% for crude oil, 7% for natural gas and 8% for boe/d, while year-to-date average entitlement volumes for crude oil decreased 18%, increased 6% for natural gas and increased 1% for boe/d.

- For the fourth quarter 2017 and year-to-date 2017, BEL realized an average oil price of $56.04 and $47.81, respectively, per barrel. This reflects an increase from $42.99 (30%) and $37.52 (27%), respectively, per barrel for the same periods in 2016. BEL realized a natural gas price of $2.69 per mcf for the fourth quarter 2017 and $3.02 per mcf year-to date compared to $3.96 per mcf for the same periods in 2016. The gas price was contractually fixed at $3.96 per mcf in 2016 and renegotiated to a new 5-year term at $2.69 per mcf effective April 1, 2017.

- For the fourth quarter 2017 and year-to date 2017, the Corporation realized a net loss of $2.2 million and $9.1 million, respectively, which represents a loss per share (basic and diluted) of $0.01 and $0.05, respectively. In comparison, for the same periods in 2016, the Corporation realized a net loss of $4.6 million and net income of $99.2 million, respectively, with a loss per share (basic and diluted) of $0.03 and income per share (basic and diluted) of $1.52, respectively. In 2016, net income included $113.6 million of one-time net realized gains attributable to acquisition and restructuring transactions.

2017 Significant Events: Financing Activity and Contractual Amendments

- On March 3, 2017, BEOC signed an amendment to the gas sales agreement (the "**Amended GSA**") for the sale of non-associated natural gas produced under the ERDPSA with SOCAR, which took effect April 1, 2017.

  The original gas sales agreement (the "**Original GSA**") for the sale of non-associated natural gas from the Bahar Gas Field expired on October 1, 2015. Natural gas sales had continued on a month to month basis on the original terms set forth in the Original GSA while a revised gas sales agreement was negotiated with SOCAR. Due to the impact of significant lower oil prices on Azerbaijan's economy, SOCAR put pressure on all production sharing agreement holders to lower prices for natural gas sold to SOCAR for domestic consumption. The Amended GSA extends the term of the arrangement by five years and establishes a fixed natural gas price of $95/mcm ($2.69/mcf), which represents a 32% reduction from the natural gas price of $140/mcm ($3.96/mcf) established by the

Original GSA. In addition, the Amended GSA expands SOCAR's obligation to purchase non-associated natural gas. Under the terms of the Original GSA, SOCAR purchased only non-associated natural gas from Bahar Gas Field. Under the terms of the Amended GSA, SOCAR has agreed to purchase non-associated natural gas from the entire ERDPSA area.

- 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 operating costs and capital expenditures (together the "**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 ("**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 ("**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 and do not meet the requirements to be accounted for as oil and gas revenue.

  The reserves report at December 31, 2017 issued by GLJ Petroleum Consultants ("**GLJ**") forecast material increases in production for the next two to five years based on significant capital investments. There is no assurance all the capital investments will be realized in the amounts necessary and in the time required to substantially bring production increases to levels sufficient to recover the balance of Carry 1 over the remaining life of the Protocol and ERDPSA.

- On May 12, 2017, the Corporation completed a non-brokered private placement of 2,398,630 common shares of the Corporation (the "**Common Shares**") at a price of USD$0.146 per Common Share (CAD$0.20) for aggregate gross proceeds of approximately $350 thousand. Also, on June 27, 2017, the Corporation completed a brokered private placement of 18,258,201 Common Shares of the Corporation at a price of USD$0.148 per share (CAD$0.20) for aggregate gross proceeds of approximately $2.7 million.

- On October 31, 2017, the Corporation and its senior lender Vitol Energy (Bermuda) Ltd. (the "**Lender**") executed the twelfth amending agreement (the "**Amendment**") to the loan agreement between the Corporation and the Lender, 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 (the "**Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from March 31, 2018 to January 15, 2020; (iii) interest on the Restructured Amount was amended to LIBOR plus 11% per annum and, in the event the Restructured Amount is reduced to an amount less than or equal to $30 million, the interest on outstanding portion of the Restructured Amount will be reduced to LIBOR plus 8% per annum; (iv) payment of interest on the Restructured Amount for 2017 and 2018 was deferred until the maturity date of the Loan Agreement; (v) the 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.

Operating Highlights and Plans

- Gross production volumes produced from the ERDPSA averaged 638 bbl/d for crude oil, 19.0 mmcf/d for natural gas or 3,804 boe/d for the fourth quarter 2017. Production was lower than forecast for several reasons: (i) the slower pace of executing scheduled workovers, reflecting, in part, limited access to heavy lift vessels; (ii) lower than expected post-workover production rates; and (iii) the slow pace of south Gum Deniz electric submersible pump ("**ESP**") installations due to old wellbores requiring more extensive work than originally expected.

- During the fourth quarter 2017, operating expenses were 7% below budget. Capital expenditures were significantly under budget as result of capital projects being reduced in scope or delayed until the technical work was completed and a revised plan of development is formulated. BEOC continues its efforts to find opportunities that could further reduce field operating costs while maintaining health, safety and environmental standards.

- During the fourth quarter 2017, BEOC completed seven capital and 13 service workovers in the Gum Deniz. In the Bahar Gas Field, one capital workover was completed and two capital workovers are underway. A number of construction projects continued, including platform refurbishments, causeway structure reinforcement and processing facility improvements.

- During the fourth quarter of 2017, BEOC continued the South Gum Deniz re-development project, which includes the refurbishment of platforms 409 and 412 and the installation of ESPs in seven wells. The project has experienced delays due to limited access to rigs with the capability to service older wells and perform difficult workovers. The Corporation has leased two modular rigs which are expected to be mobilized in April and June 2018. The refurbishment of Platform 412 is expected to be completed in the second quarter of 2018 resulting in ESP installations in four additional wells.

- The dynamic reservoir model simulation studies continued for both the Bahar and Gum Deniz fields. Activity through 2017 focused on geophysical mapping of the Gum Deniz 3D dataset and Bahar 2D dataset; the completion of static geological models for all layers in Bahar and Gum Deniz; and the completion of dynamic history matched models for the Gum Deniz Field. These studies will continue through 2018 in order to enable a more thorough evaluation of development options in the Bahar Gas Field and Gum Deniz Field. A new plan of development will be submitted to SOCAR subsequent to the completion of the studies in mid-2018.

- In December 2017, BEOC initiated an extended waterflood injectivity test in Gum Deniz. Several reservoirs were previously and successfully waterflooded by the USSR up to the mid-1990's. The injectivity test will look for responses in offset wells in an area of the Gum Deniz that has not been efficiently waterflooded before. Injection of water will continue as new wellbores are added. Offset producing wells and observation wells will be closely monitored for response.

- Going into 2018, BEOC will continue its focus on improving cash flows by increasing gas production from the Bahar Gas Field through a series of recompletions of existing wells, and reactivating oil production by installing ESP's in south Gum Deniz wells. The Corporation will continue to seek additional funding sources to provide working capital for the Bahar Project and corporate purposes.

2017 GUIDANCE RECONCILIATION

The table and discussion below provide a comparison of Greenfields' operational guidance and actual results of production for the year ended December 31, 2017. The original guidance was disclosed by the Corporation in a press release dated April 24, 2017 which may be viewed on www.sedar.com.

Production Volume

	Exit Production as of December 31, 2017		
	Guidance	Actual	Variance (%)
Total (boe/d)	6,444	3,944	(39%)

Reason for Variance

The primary factors contributing to lower than expected production were: (i) the slower pace of executing scheduled workovers, reflecting, in part, limited access to heavy lift vessels; (ii) the lower than expected post-workover production rates; and (iii) the slow pace of south Gum Deniz Electric Submersible Pumps (ESP) installations as workovers in old wellbores required additional cleaning and scraping runs. The

Corporation plans to address the limited access to heavy lift vessels through the leasing of modular rigs which can be mobilized with more readily available smaller crane vessels.

Additionally, Bahar Energy Operating Company Limited elected to defer both capital and operating expenditures until the development plan and reservoir studies were completed, which would further facilitate the delineation and selection of the best projects going forward. The reservoir studies were initially expected to be completed by April of 2017, in respect of the gas field, and by midyear 2017, in respect of the oil field. However, the studies were not completed until Q1 2018 as a result of the identification of development opportunities (particularly waterfloods), additional evaluation work requested by the reserve engineers (GLJ Petroleum Consultants and ERC Equipoise Ltd.), and data inconsistencies resulting from scribed logs and well files that required clarification and further delineation.

In light of lower than expected production, the Corporation revised its 2017 budget, resulting in downward adjustments to capital expenditures to $9.7 million (from guidance of USD$21 million) and operating expenses to $23 million (from guidance of USD$28 million). The deferral of projected expenditures, intended to increase gross lease production from 4,167 boe/d at December 31, 2016, resulted in the realization of approximately 24% less revenue than originally expected by the Company.

SELECTED FINANCIAL INFORMATION

*Revenues and operating results in the "**Selected Financial Information**" and the "**Summary of Quarterly Results**" have been adjusted to reflect the Corporation's share of BEL. Upon the closing of the Acquisition on August 9, 2016, BEL became a wholly-owned subsidiary of the Corporation, and the Corporation began consolidating 100% of the revenues and operating results from BEL on a going forward basis. For comparative purposes, for periods prior to the Acquisition, revenues, entitlement sales volumes and operating results presented in this MD&A have been adjusted to include the Corporation's 33.33% share of petroleum, natural gas and transportation revenues from BEL, previously included in the "Income or Loss on Investment in Joint Venture" under the equity method of accounting. The combined financial and operating results have been presented only for comparative purposes and do not reflect proper accounting practice under IFRS.*

(US$000's, except as noted)	Years ended December 31,		
	2017	2016	2015
Financial			
Revenues [1]	29,446	21,592	14,657
Net income (loss) [2]	(9,068)	99,193	(7,524)
Per share, basic and diluted	($0.05)	$1.52	($0.34)
Capital items			
Cash and cash equivalents	741	1,361	100
Total assets	200,597	199,341	89,523
Working capital	(5,873)	(1,444)	(6,478)
Long term debt and shareholders' equity	180,846	185,103	55,600

(1) For comparative purposes, revenues represent the Corporation's 33.33% share of BEL entitlement production for year 2015; the 33.33% share of BEL entitlement production until the Acquisition on August 9, 2016; and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(2) For the 2016 fiscal year, net income includes $113.6 million of one-time net realized gains attributable to the Acquisition and Restructuring Transactions.

Bahar Energy Limited

(US$000's, except as noted)	Year ended December 31,		Corporation's share	
	2017	2016	2017	2016
Financial				
Revenues	29,446	33,507	29,446	20,783
Operating				
Average Entitlement Sales Volumes (1)				
Crude Oil (bbl/d)	626	764	626	443
Natural gas (mcf/d)	16,628	15,691	16,628	9,833
Barrel oil equivalent (boe/d)	3,397	3,379	3,397	2,082
% of gross production volumes (2)	86%	86%	86%	56%
Average Oil Price				
Oil price ($/bbl)	$48.79	$38.44	$48.79	$38.44
Net realization price ($/bbl)	$47.81	$37.52	$47.81	$37.52
Brent oil price ($/bbl)	$54.12	$43.67	$54.12	$43.67
Natural gas price ($/mcf)	$3.02	$3.96	$3.02	$3.96
Net realization price ($/boe) (3)	$23.75	$27.28	$23.75	$27.28
Operating cost ($/boe) (3)	($16.85)	($21.79)	($16.85)	($21.79)
Oil marketing cost ($/boe) (3)	($0.47)	($0.50)	($0.47)	($0.50)
Operating Netback ($/boe) (3)	$6.43	$4.99	$6.43	$4.99

(1) Daily volumes represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. Compensatory petroleum represents 10% of gross production from the ERDPSA and continues to be delivered to SOCAR, at no charge, until specific cumulative petroleum and natural gas production milestones are attained. Daily production entitlement volumes prior to the Acquisition of BEL on August 9, 2016, include the Corporation's 33.33% share of BEL's entitlement production and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(2) Represents the percentage of BEL's entitlement production volume relative to gross production volumes from the ERDPSA.

(3) Non-IFRS measurement.

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SUMMARY OF QUARTERLY RESULTS

(US$000's, except as noted)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Revenues								
Crude oil and natural gas	6,899	6,491	6,818	9,238	8,952	6,667	2,698	2,466
Management service fees [3]	-	-	-	-	-	200	275	334
	6,899	6,491	6,818	9,238	8,952	6,867	2,973	2,800
Net income (loss) [1]	(2,188)	(2,649)	(3,129)	(1,368)	(4,599)	109,945	(2,551)	(3,602)
Per share, basic and diluted	($0.01)	($0.01)	($0.02)	($0.01)	($0.03)	$1.85	($0.12)	($0.16)
Operating								
Average Entitlement Sales Volumes [2]								
Crude Oil (bbl/d)	549	573	674	709	647	566	260	295
Natural gas (mcf/d)	16,214	15,902	17,120	17,296	17,403	12,441	4,834	4,543
Barrel oil equivalent (boe/d)	3,252	3,223	3,527	3,591	3,547	2,640	1,065	1,052
Prices								
Average oil price ($/bbl)	$57.11	$48.46	$42.89	$48.20	$43.92	$40.86	$40.52	$30.84
Natural gas price ($/mcf)	$2.69	$2.69	$2.69	$3.96	$3.96	$3.96	$3.96	$3.96
Net realization price ($/boe) [5]	$23.06	$21.89	$21.24	$28.58	$27.43	$27.45	$27.83	$25.75
Operating cost ($/boe) [5]	($15.97)	($16.20)	($15.56)	($19.52)	($25.91)	($19.41)	($18.22)	($17.43)
Oil marketing cost ($/boe) [5]	($0.48)	($0.47)	($0.49)	($0.44)	($0.47)	($0.52)	($0.55)	($0.48)
Operating Netback ($/boe) [5]	$6.61	$5.22	$5.19	$8.62	$1.05	$7.52	$9.06	$7.84
Capital Items								
Cash and cash equivalents	741	1,983	2,173	1,891	1,361	1,460	428	906
Total Assets	200,597	200,198	201,174	198,781	199,341	203,553	97,778	97,220
Working capital [4]	(5,873)	(2,697)	(47,136)	(48,189)	(1,444)	(1,173)	(10,351)	(14,345)
Long term debt and shareholders' equity	180,846	182,773	138,439	138,147	185,103	188,285	52,377	53,990

(1) For the third quarter 2016, net income includes $113.6 million of one-time net realized gains attributable to the Acquisition and restructuring transactions.

(2) Daily volumes represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. Compensatory petroleum represents 10% of gross production from the ERDPSA, which will continue to be delivered at no charge to SOCAR until specific cumulative oil and gas production milestones are attained. Daily production entitlement volumes prior to the Acquisition of BEL on August 9, 2016 include the Corporation's 33.33% share of BEL's entitlement production and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(3) Represents service fees for management, administrative and technical support provided at cost to BEL and BEOC prior to the Acquisition of BEL on August 9, 2016. The related party receivables resulting from such fees have been eliminated in consolidation.

(4) Working capital at March 31 and June 30, 2017 includes short term loans maturing March 31, 2018 that were reclassified from long term loans. In March 2018 the maturity date was extended to July 31, 2018. *See Subsequent Events*.

(5) Non-IFRS measurement.

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RESULTS OF OPERATIONS

Crude oil and natural gas revenues [(1)]

	100% Bahar Energy		Corporation's share	
	Three months ended December 31,			
(US$000's)	2017	2016	2017	2016 [(2)]
Crude Oil	2,886	2,612	2,886	2,612
Natural gas	4,013	6,340	4,013	6,340
Total oil and gas revenues	6,899	8,952	6,899	8,952

	100% Bahar Energy		Corporation's share	
	Year ended December 31,			
(US$000's)	2017	2016	2017	2016 [(2)]
Crude Oil	11,147	10,765	11,147	6,531
Natural gas	18,299	22,742	18,299	14,252
Total oil and gas revenues	29,446	33,507	29,446	20,783

(1) Crude oil and natural gas revenues represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. The Corporation's entitlement production includes the allocation of SOA's share of cost recovery petroleum production as stipulated by the ERDPSA Carry 1 recovery provisions.

(2) Crude oil and natural gas revenues prior to the Acquisition of BEL on August 9, 2016, include the Corporation's 33.33% share of BEL's entitlement production and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

Crude oil revenues increased 10% for the fourth quarter 2017 and increased 4% year-to-date 2017 when compared to crude oil revenues realized for the same periods in 2016. Higher oil prices during 2017 contributed to offset impact of lower sales volumes.

Natural gas revenues decreased 37% for the fourth quarter 2017 and 20% year-to-date 2017 when compared to natural gas revenues realized for the same periods in 2016. Despite slightly higher year-to-date 2017 volumes, revenues for the fourth quarter 2017 and year-to-date 2017 were materially impacted by lower production and the lower sales price of natural gas implemented through the Amended GSA effective April 1, 2017, which reduced the sales price from \$3.96/mcf to \$2.69/mcf.

In relation to the 2017 Guidance, the deferral of projected expenditures, intended to increase gross lease production from 4,167 boe/d at December 31, 2016, resulted in the realization of approximately 24% less revenue than originally expected by the Corporation.

During the year ended December 31, 2017, Bahar Energy's crude oil and natural gas production entitlement volumes were marketed through SOCAR, the State Oil Company of Azerbaijan. Bahar Energy'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 Corporation recorded revenues for Bahar Energy's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Year Ended December 31,	
US$000's	2017	2016
Bahar Energy's share of Petroleum entitlement production	23,568	26,942
SOA's cost recovery Petroleum production	5,878	6,565
Bahar Energy's entitlement revenue	29,446	33,507

As at December 31, 2017, the Corporation had a balance of $9.6 million in accounts receivables from crude oil and natural gas sales to SOCAR. The Corporation 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 Corporation discontinued the actions initiated in connection with a 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.

Fourth quarter 2017 average entitlement sales volumes

	100% Bahar Energy		**Corporation's share**	
	Three months ended December 31,			
	2017	2016	2017	2016 [1]
Oil and condensate (bbl/d)	549	647	549	647
Variance with respect to same period in 2016	*(15%)*			
Natural gas (mcf/d)	16,214	17,403	16,214	17,403
Variance with respect to same period in 2016	*(7%)*			
Barrel of oil equivalent (boe/d)	3,252	3,547	3,252	3,547
Variance with respect to same period in 2016	*(8%)*			

[1] Volumes prior to the Acquisition of BEL on August 9, 2016, include the Corporation's 33.33% share of BEL's entitlement sales volumes and 100% of BEL's entitlement sales volumes for periods subsequent to the Acquisition.

Year-to-date average entitlement sales volumes

	100% Bahar Energy		**Corporation's share**	
	Year ended December 31,			
	2017	2016	2017	2016 [1]
Oil and condensate (bbl/d)	626	764	626	443
Variance with respect to same period in 2016	*(18%)*			
Natural gas (mcf/d)	16,628	15,691	16,628	9,833
Variance with respect to same period in 2016	*6%*			
Barrel of oil equivalent (boe/d)	3,397	3,379	3,397	2,082
Variance with respect to same period in 2016	*1%*			

[1] Volumes prior to the Acquisition of BEL on August 9, 2016, include the Corporation's 33.33% share of BEL's entitlement sales volumes and 100% of BEL's entitlement sales volumes for periods subsequent to the Acquisition.

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Average net realization price for crude oil and natural gas [(2)]

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Average crude oil sales price – $/bbl	57.11	43.92	48.79	38.44
Transportation fees	(0.59)	(0.46)	(0.51)	(0.41)
Marketing fees	(0.48)	(0.47)	(0.47)	(0.51)
Crude oil	56.04	42.99	47.81	37.52
Natural gas - $/mcf [(3)]	2.69	3.96	3.02	3.96

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

(3) Effective April 1, 2017, the Amended GSA reduced the sales price from $3.96/mcf to $2.69/mcf.

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 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 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. 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 Corporation 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 Corporation 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 Corporation 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. For the years ended December 31, 2017 and 2016, the Corporation 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

For the three months and year ended December 31, 2017, Bahar Energy's share of BEOC's operating costs were $7.8 million and $20.1 million, respectively, (December 31, 2016 - $8.4 million and $23.6 million, respectively).

For the three months and year ended December 31, 2017, the Corporation's share of Bahar Energy operating costs was $7.8 million and $20.1 million, respectively, (December 31, 2016 - $8.4 million and $16.3 million, respectively). The Corporation's share of Bahar Energy operating costs for twelve months ended December 31, 2016 reflects 33% of expenditures through August 9, 2016 and 100% thereafter.

BEOC continues to implement cost saving measures through workforce reductions, training of the internal workforce to perform services previously provided by third party vendors and negotiating lower costs for materials and services.

Bahar Energy's operating costs represent the aggregation of the Bahar Energy's 80% share of costs and the remaining portion of SOA costs funded by Bahar Energy due to SOA's insufficient funding of their share of operating and capital costs. For the year ended December 31, 2017, the Corporation recognized operating costs from Bahar Energy'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 Corporation 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 Corporation had a receivable balance of $918 thousand (December 31, 2016 - $nil) consisting of uncollected Protocol Proceeds.

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.

Administrative expenses

	Three Months ended December 31,		Year ended December 31,	
(US$000's)	2017	2016	2017	2016
Employee wages and benefits	427	755	1,613	2,272
Professional service costs	227	194	716	2,576
Office, travel and other	151	15	703	477
Total cash expenses	805	964	3,032	5,325
Share-based payment expense	(9)	262	61	227
Total gross administrative	796	1,226	3,093	5,552
Services fees billed to affiliates	-	-	-	(809)
Administrative expenses net of services fees	796	1,226	3,093	4,743

Gross administrative expenses for the three months and year ended December 31, 2017 were $0.8 million and $3.1 million, respectively, (December 31, 2016 - $1.2 million and $5.6 million, respectively). The decrease in administrative expenses year-to date versus the same period for 2016 is mainly related to lower payroll costs due to reduced staffing at Corporate as well as lower legal and professional fees. The 2016 professional service costs were particularly higher due to legal and professional expenses associated with the acquisition and restructuring transactions.

For the three months and year ended December 31, 2017, net administrative expenses were $0.7 million and $3.1 million, respectively, (December 31, 2016 - $1.2 million and $4.7 million, respectively). Effective immediately upon completion of the Acquisition on August 9, 2016, the Corporation has eliminated service fees and the associated receivable balances in consolidation.

Share-based payments

US$000's	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Third party services - share settled	-	81	30	81
Share-based compensation – Employees and Directors				
Share settled - Share options	14	12	81	42
Cash settled - Contingent bonus [(1)]	(11)	49	(54)	5
Cash settled - Cash bonus awards [(1)]	(12)	103	4	99
Subtotal	(9)	164	31	146
Total share-based payments	(9)	245	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 Bonus Program"* below.

Share-based payments recorded by the Corporation 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 three months and year ended December 31, 2017 were ($9) thousand and $61 thousand, respectively, (December 31, 2016 - $245 thousand and $227 thousand, respectively).

Share Options

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

On October 13, 2016, the Corporation granted options to acquire 400,000 Common Shares of the Corporation pursuant to its Share Option Plan to two contractors. The options are exercisable at a price of CAD$0.24 per Common 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 Corporation granted options to acquire 650,000 Common Shares of the Corporation pursuant to its Share Option Plan, 450,000 of which were granted to officers of the Corporation. 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.

For the three months and year ended December 31, 2017, the Corporation's recorded share options expenses of $14 thousand and $81 thousand, respectively, (December 31, 2016 - $12 thousand and $42 thousand, respectively). The share options expense is offset to the Corporation's share-based payment reserve.

Grant Date	Number Outstanding	Expiration Date	Remaining Contractual Life (years)	Exercise price (CAD$)	Number Exercisable
Aug. 31, 2010	15,000	Aug. 31, 2020	2.7	6.50	15,000
Oct. 11, 2013	540,000	Oct. 11, 2018	0.8	3.20	540,000
Nov. 7, 2013	50,000	Nov. 7, 2018	0.9	2.90	50,000
July 8, 2014	115,000	July 8, 2019	1.5	3.25	115,000
Oct. 13, 2016	400,000	Oct. 13, 2021	3.8	0.24	100,000
Jan. 6, 2017	650,000	Jan. 6, 2022	4.0	0.29	-
	1,770,000				820,000

As at December 31, 2017, the Corporation had a total of 1,770,000 share options outstanding with remaining contractual lives ranging from 0.8 to 4.0 years. A total of 820,000 share options were exercisable at an average exercise price of CAD$2.89.

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

Contingent Bonus

On January 12, 2015, the Corporation awarded the right to 500,490 Common Shares to certain employees and consultants as a contingent bonus. Vesting of the Common Shares was set to occur on the first of the following dates: January 1, 2016; the date of a change of control of the Corporation; or such earlier vesting date as determined by the Board. At the option of the Board, the contingent bonus may be settled by the Corporation in cash, with the value of Common Share or share equivalent payment determined by the market closing price of the 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 Corporation; 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 ($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 three months and year ended December 31, 2017, the Corporation recorded decreases of $11 thousand and $54 thousand, respectively, (December 31, 2016 – increases of $49 thousand and $5 thousand, respectively) in the fair value of the contingent bonus liability.

Restricted Cash Bonus Program

In June 2012, the Corporation established a Restricted Cash Bonus Program consisting of two cash settled incentives awarded in bonus units. The first incentive is the Full Value Based Cash Bonus ("**FVBCB**") with the cash settlement value of a bonus unit equal to the current market price of a Common Share 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 at call date and the original strike price per bonus unit. The program does not grant any entitlement to Common Shares or other equity interest in the Corporation.

The FVBCB incentive awards vested in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The estimated FVBCB liability was amortized over the three-year vesting period with each vesting tranche fully amortized at vesting date. The liability was also fair valued at each reporting date with adjustments recorded through profit and loss.

On January 20, 2015, the Corporation 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 a 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 Corporation; or such earlier vesting 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 vested in four tranches, 25% at grant date and 25% on each of January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using 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 three months and year ended December 31, 2017, the Corporation recorded restricted cash bonus expense of $nil (December 31, 2016 – $5 thousand and $1 thousand, respectively).

Fair Value Director Cash Bonus Program

On October 13, 2016, the Corporation established a Fair Value Director Cash Bonus Program ("**FVDCB**") for the Board, consisting of cash settled incentives awarded in bonus units. Subsequently, the Corporation awarded 1,250,000 FVDCB units with the cash settlement value of a bonus unit equal to the average CAD denominated value of a Common Share for the five trading days prior to filing a call notice. 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 of the shares of the Corporation; (2) an amalgamation, arrangement, merger or other consolidation of the Corporation with another corporation; (3) a liquidation, dissolution or winding-up of the Corporation; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Corporation. Notwithstanding the provisions of the FVDCB Program, payment of vested bonus 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 Corporation. 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 Corporation, 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 three months and year ended December 31, 2017, the Corporation recorded a decrease of $11 thousand and an increase of $4 thousand, respectively, (December 31, 2016 - $99) in the fair value of the FVDCB liability.

Key Employee Contingent Incentive Plan Award

On October 13, 2016, the Corporation established a Key Employee Contingent Incentive Plan Award ("**KECIP**") for the employees of the Corporation and select employees of BEOC consisting of cash settled incentives awarded in bonus units. Subsequently, the Corporation awarded 11,025,000 KECIP bonus 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 Corporation; (2) an amalgamation, arrangement, merger or other consolidation of the Corporation with another corporation; (3) a liquidation, dissolution or winding-up of the Corporation; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Corporation. The program does not grant any entitlement to Common Shares or other equity interest in the Corporation. The KECIP bonus 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 additional 730,000 KECIP bonus units with similar vesting conditions to two employees and a contractor.

No expense has been recorded for the issuance of the KECIP bonus units as of December 31, 2017, as the related cash settlement value can only be determined when a monetization event takes place.

Interest income and interest expense

	Three Months Ended December 31,		Year Ended December 31,	
US$000's	2017	2016	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)]	(1,660)	(1,404)	(5,391)	(3,750)
Interest expense – short term loans [(5)]	(201)	-	(747)	-
	(1,861)	(1,404)	(6,138)	(7,383)

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

(2) Interest expense on short term loan includes interest and amortization of transaction costs. The accumulated interest on short term loan was included as part of the restructuring transaction dated August 19, 2016. Therefore, 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 on convertible debentures was included as part of the debentures conversion dated August 26, 2016. Therefore, 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 on long term loan-2 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 *Subsequent Events*.

CASH FLOW ANALYSIS

For the three months and year ended December 31, 2017, the Corporation's primary source of funds has come from operations. Additionally, the Corporation raised $3.1 million (approximately CAD $4.1 million) through private placements during the second quarter 2017. Cash and cash equivalents are primarily used to fund corporate expenses and working capital needs.

EQUITY CAPITAL

As of the date of this report, the Corporation had 179,807,812 Common Shares, 1,770,000 share options and no preferred shares outstanding.

RISK FACTORS

The following abbreviated "*Risk Factors*" reflect those risks and uncertainties specific to the Corporation and the Bahar Project and are summarized from the more detailed Risk Factor assessment disclosed in the Corporation's Annual Information Form for the year ended December 31, 2016 available on SEDAR, www.sedar.com.

Rehabilitation, Development and Production Risks

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

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

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

Substantial Capital Requirements

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

Additional Financing Requirements and Dilution of Investment

It may take many years and substantial capital expenditures to pursue the exploration and development of the Corporation's existing opportunities, successfully or otherwise. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, rehabilitation and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's future revenues from its potential reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its potential reserves or to maintain its production. If the Corporation's cash flow is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

The availability of equity or debt financing is affected by many factors, including world and regional economic conditions; the state of international relations; the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation; fluctuations in the world and regional price of oil and gas and in interest rates; the outlook for the oil and gas industry in general and in areas in which the Corporation has or intends to have operations; and competition for investment funds among alternative investment projects.

The terms of any such equity financing may be dilutive to holders of Common Shares. The result of any such debt financing could be to impair the Corporation's ability to obtain additional financing in the future on a timely basis, impairing its ability to take advantage of business opportunities that may arise. In addition, the Corporation has obtained debt financing through various loan agreements in which the Corporation has provided all or substantially all of the Corporation's assets as security (i.e. the Loan Agreement), and the Corporation's other potential lenders will likely also require such security arrangements. If the Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell some or potentially all of the Corporation's properties.
Potential investors and lenders will be influenced by their evaluations of the Corporation and its projects, including their technical difficulty, and comparison with available alternative investment opportunities. If adequate funds are not available, the Corporation may be required to scale back or reduce its interest in certain projects. If additional financing is raised by the issuance of shares, control of the Corporation may change and existing shareholders may suffer dilution. In addition, the Corporation may make future property or corporate acquisitions or enter into other transactions involving the issuance of securities of the Corporation which may also be dilutive.

Volatility of Oil and Gas Prices and General Economic Conditions

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

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

In addition, third party financing alternatives available to the Corporation may in part be determined by the Corporation's oil and gas reserves that could form its borrowing base. A sustained material decline in prices from historical levels could reduce the Corporation's borrowing base available under such potential reserve-based borrowings, thereby reducing the credit available to the Corporation under such loans. At present, the Corporation does not have any reserve-based loans in its capital structure.

The Corporation has reduced the risk of changing natural gas prices by signing the Amended GSA which is effective April 1, 2017 and sets a natural gas price of $2.69/mcf for the next five years. Through an oil sales agreement with SOCAR, the Corporation expects to continue receiving net oil prices that have historically realized approximately 94% of the Brent crude benchmark less transportation costs.

Markets and Marketing

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

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

Project Risks

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

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel services;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- failure of aging infrastructure from former operations;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labor;
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies; and
- industry partner conflicts of interest.

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

Risk of Foreign Operations

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

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

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

Availability of and Access to Drilling and Related Equipment

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

Reliance on Industry Partners

The Corporation relies on SOA, a 20 percent Contractor Party to the ERDPSA. The Corporation relies on this partner with respect to the evaluation, acquisition, development funding and timing of activities, as well as future production from the ERDPSA, and a failure or inability to perform by such partner could materially affect the prospects of the Corporation. The failure of SOA to contribute their share of funding in the time required by the Bahar Project may materially impact the Corporation's and BEOC's ability to fully execute the Bahar Project development plan.

Reliance on Key Personnel

The Corporation's success will depend in large measure on certain key personnel, including officers, consultants and employees. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have key person insurance in effect for management of the Corporation. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Availability of Services

The availability of the services necessary to drill, complete and produce the types of wells and waterfloods that form a substantial portion of the Corporation's planned exploration and development activities remains constrained due to increased demand and competition for such services. Such constraint may increase the costs of such services or result in the delay of planned exploration and development activities.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Costs of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation does. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition and results of operations could be materially adversely affected. If the Corporation is unable to utilize the most advanced commercially available technology, the Corporation's business, financial condition and results of operations could be materially adversely affected.

Conflicts of Interest

Certain directors and officers of the Corporation are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures as established by the Board and in accordance with applicable corporate laws.

Share Price Volatility

The market price of the Common Shares could be subject to wide fluctuations in response to the Corporation's results of operations, changes in earnings estimates by analysts, changing conditions in the oil and gas industry, or changes in general market, economic or political conditions.

Regulatory Regime

The operations of the Corporation require permits, licenses, approvals and authorizations from various governmental and non-governmental authorities. Such permits, licenses, approvals and authorizations are subject to the discretion of the applicable governmental and non-governmental authorities. The Corporation must comply with existing standards, laws and regulations, as applicable, that may entail greater or lesser costs and delays, depending on the nature of the activity to be permitted and the permitting authority. There can be no assurance that the Corporation will be able to obtain all necessary permits, licenses, approvals or authorizations. Failure to obtain such licenses, permits, approvals or authorizations may have a material adverse effect on the Corporation's business, prospects, financial condition or results of operations. The Corporation's intended activities will be dependent on such permits, licenses, approvals and authorizations which, if obtained, could subsequently be withdrawn or made subject to limitations. There can be no guarantee as to the terms of any such permits, licenses, approvals and authorizations that future permits, licenses, approvals and authorizations will be renewed or, if so, on what terms when they come up for renewal. Properties in the jurisdiction in which the Corporation currently carries on business are subject to licence requirements, which generally include, inter alia, certain financial commitments which, if not fulfilled, could result in the suspension or ultimate forfeiture of the relevant licenses. Government action, which could include non-renewal of licenses, may result in any income receivable by the Corporation or licenses held by the Corporation being adversely affected. In particular, changes in the application or interpretation of laws and/or taxation provisions in the regions in which it carries on business could adversely affect the value of the Corporation's interests.

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

Legal Risks

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

Regional Risk

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

Corporate Tax Regime

Development of reserves and rates of return are susceptible to changes in national fiscal policy. Azerbaijan, in which the Corporation's principal assets are located, is a developing democracy, and so may be more likely to implement changes in fiscal policy which are detrimental to the interests of oil and gas companies operating there. In addition, any changes to taxation laws in Azerbaijan, the United States, the Cayman Islands or Canada may have a material adverse effect on the Corporation's business, prospects, financial condition or results of operations.

Tax regimes in the jurisdictions in which the Corporation operates can be subject to differing interpretations and are often subject to legislative change and changes in administrative interpretation in those jurisdictions. The interpretation by the Corporation's relevant subsidiaries of relevant tax law as applied to their transactions and activities (including farm ins and farm outs) may not coincide with that of the relevant tax authorities. As a result, transactions may be challenged by tax authorities and any profits of the Corporation's subsidiaries from activities in those jurisdictions may be assessed to additional tax or additional transactional taxes (e.g. stamp duty or value-added tax), which, in each case, could result in significant additional taxes, penalties and interest, any of which could have a material adverse impact on the Corporation's business, prospects, financial condition or results of operations.

Banking Risk

The Corporation and its subsidiaries hold bank accounts in Azerbaijani banks, and thus, access to capital resources can be affected by the performance of these banks and their ability to continue as a going concern. Commercial banks (including “money centre” regional and community banks), savings and loan associations and holding companies of the foregoing are especially subject to adverse effects of volatile interest rates, concentrations of loans in particular industries (such as real estate or energy) and significant competition. The profitability of these businesses is to a significant degree dependent upon the availability and cost of capital funds. Economic conditions in, for example, the real estate market, may have a particularly strong effect on certain banks and savings associations. Commercial banks and savings associations are subject to extensive government regulation, however, such extensive regulation cannot fully ensure the solvency or profitability of companies in this industry, and there is no assurance against losses to accounts held by such companies. To the extent that the Corporation’s or any of its subsidiaries cash is held by, or invested by, regional Azerbaijani banks, access to such cash (or the performance of such investments) could be disproportionately affected by factors particular to that state or region. These may include economic or policy changes, erosion of the tax base, and state legislative changes (especially those regarding budgeting and taxes) and other matters that affect local economies.

Conflicting Interests with Partners

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

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

Expiration of Contract Terms

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

Environmental Risks and Regulations

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

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

Insurance

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

Delays in Business Operations

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

Third Party Credit Risk

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

Governmental Regulation

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

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

Labor

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

Market Conditions

As a result of the weakened global economic situation and the recent volatility in oil, natural gas and other commodity prices, The Corporation may face reduced cash flow and restricted access to capital until these conditions stabilize. A prolonged period of adverse market conditions may affect the Corporation's financial results and impede the Corporation's ability to finance planned capital expenditures. In addition, a prolonged period of adverse market conditions may impede the Corporation's ability to refinance its credit facilities or arrange alternative financing for operations, capital expenditures and future acquisition opportunities. In each case, the Corporation's ability to maintain and grow its reserves and fully exploit its properties for the benefit of the shareholders could be adversely affected. As well, given the recent volatility in commodity prices in global markets, the trading prices of Common Shares in the future may be subject to considerable volatility. Future trading prices of the Corporation's Common Shares may be significantly below current levels.

Negative Operating Cash Flow

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

Climate Change

Azerbaijan is signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Azerbaijan is also a signatory to the Paris Agreement. The Corporation's proposed exploration activities will emit greenhouse gases and require the Corporation to comply with greenhouse gas emissions legislation and policy. The direct or indirect costs of these regulations may have a material adverse effect on the Corporation's business, prospects, financial condition or results of operations. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord, the Paris Agreement or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become payable. The Corporation's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient cash or cash equivalents to pay its obligations when due, under both normal and unusual conditions and without incurring unacceptable costs, relinquishment of properties or risking harm to the Corporation's reputation. However, the Corporation's current cash balance of $0.7 million is insufficient to meet its current obligations, thereby requiring additional funding to continue providing working capital for the Bahar project and corporate purposes. The timing or likelihood of such funding is uncertain.

The Corporation’s existing financial liabilities for the three months and year ended December 31, 2017 arose primarily from obligations related to its participation in the Bahar Project. The Corporation is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Corporation’s investment is dependent upon the Bahar Project’s ability to complete the development of properties, which includes meeting the related financing requirements.

On May 12, 2017, the Corporation completed a non-brokered private placement of 2,398,630 Common Shares for aggregate gross proceeds of $350 thousand. Also, on June 27, 2017, the Corporation completed a brokered private placement of 18,258,201 Common Shares for aggregate gross proceeds of $2.7 million.

On October 31, 2017, the Corporation executed the twelfth amending agreement to the Loan Agreement with its lender Vitol Energy (Bermuda) Ltd. Pursuant to this amending agreement, the principal amount plus accrued and unpaid interest as at November 1, 2017, was converted to principal; the maturity date of the Loan Agreement was extended from March 31, 2018 to January 15, 2020; payment of interest on the principal for 2017 and 2018 was deferred until the maturity date of the Loan Agreement; and mandatory early repayments were scheduled quarterly, beginning January 1, 2019.

The Corporation will continue to seek additional funding sources to provide working capital for the Bahar Project and corporate purposes. The Corporation will also seek borrowing opportunities to replace its senior debt with a lower financing cost facility. The Corporation will also evaluate the potential for equity placement to replace some or all of its debt obligations.

The Corporation’s ability to continue as a going concern depends on the Corporation being successful in raising additional capital through debt financing or issuance of equity on favorable terms.

The Bahar Project cash flows, both in the short-term and long-term, are impacted by volatile oil prices. Significant deterioration in commodity prices negatively impacts earnings, cash flows, capital spending, and potentially our liquidity. However, gas sales are not subject to volatility during the fixed price period ending in December 2021, and sales volumes will be positively impacted by the onset of new production related to the initiation of waterfloods and start of drilling and recompletion operations in the fields. Such increases in production could be affected by the weather in the Caspian Sea, and the availability of suitable offshore installation equipment could cause delays in operations therefore reducing the Bahar Project’s ability to realize estimated earnings and cash flows.

The Bahar Project long-term cash flows are highly dependent on the success in efficiently developing current reserves and economically finding, developing and monetizing additional recoverable reserves as described in the GLJ reserves report. Cash investments are required continuously to fund exploitation and development projects, which are necessary to offset the inherent declines in production of proven reserves. The Corporation may not be able to find and develop additional resources, as described in the ERC Equipoise Ltd. Report, to replace current and future production at acceptable costs.

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%)

The Corporation will pursue various financing options for its current corporate obligations and its contractual commitments under the ERDPSA with cash on hand, non-cash working capital, cash from operations and additional issuances of debt and equity securities.

Off-balance sheet arrangements

The Corporation does not have any special purpose entities, nor is it party to any transactions or arrangements that would be excluded from the Corporation's Audited Consolidated Statements of Financial Position as at December 31, 2017.

Related party transactions

A detailed discussion of related party transactions is included in Notes 6,7,12 and 13 to the Corporation's Audited Consolidated Financial Statements for the three months and year ended December 31, 2017.

Contractual commitments and contingencies

The following is a summary of the Corporation'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	-	-
Total Contractual Commitments	5,303	7,523	52,214

(1) The Corporation 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 *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 Corporation's commitments to fund the Bahar Project are based on the annual Work Program and Budget ("**WP&B**") approved by the BEOC Steering Committee. The annual WP&B must be approved by contractor parties representing an 80% or greater ownership interest before submission to SOCAR for approval. With Bahar Energy holding an 80% controlling interest in the ERDPSA and now being a wholly-owned subsidiary of the Corporation, the Corporation maintains control of the approval of the annual WP&B. While technical studies are underway to optimize work programs, the Corporation expects to only approve budgets that can be fully funded from project operating cash flows.

Financial instruments

A summary of the Corporation's financial instruments is included in Note 24 to the Corporation's Audited Consolidated Financial Statements for the three months and year ended December 31, 2017.

SUBSEQUENT EVENTS

Maturity extension of short term loans

In March 2018, the Corporation 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.

ABBREVIATIONS

Abbreviation	Description
bbl	Barrels
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mcm	million cubic meters
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
km	Kilometer
CAD	Canadian Dollars
USD	United States Dollars