GREENFIELDS PETROLEUM CORPORATION

ahead of the curve

Consolidated Financial Statements

For the years ended
December 31, 2018 and 2017

PANNELL
KERR
FORSTER
OF TEXAS, P.C.

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

Independent Auditors' Report

To the Shareholders of
Greenfields Petroleum Corporation

Opinion

We have audited the accompanying consolidated financial statements of Greenfields Petroleum Corporation (the "Company"), which comprise:

- the consolidated statements of financial position as of December 31, 2018 and 2017
- the consolidated statements of comprehensive loss for the years ended December 31, 2018 and 2017
- the consolidated statements of changes in equity for the years ended December 31, 2018 and 2017
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017
- and the notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greenfields Petroleum Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

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

Other Information

Management is responsible for the other information. The other information comprises management's discussion and analysis as part of the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Pannell Kerr Forster of Texas, P.C.

April 30, 2019

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

	Notes	As at December 31, 2018	As at December 31, 2017
Assets			
Current Assets			
Cash and cash equivalents		565	741
Accounts receivable	*5*	5,058	8,702
Accounts receivable related party	*6*	683	918
Advances for operating activities		1,193	830
Prepaid expenses and deposits		24	142
Inventories, net	*7*	3,313	2,545
		10,836	13,878
Non-Current Assets			
Property and equipment, net	*8*	182,635	186,719
		193,471	200,597
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	*9*	9,124	14,308
Accounts payable related parties	*6*	2,635	2,049
Short term loans related parties	*10*	719	615
Short term loans	*10*	3,246	2,779
Current portion long term loan related party	*11*	12,908	-
		28,632	19,751
Non-Current Liabilities			
Long term loan related party	*11*	41,570	46,946
Commitments and contingencies	*20*		
Shareholders' Equity	*13*		
Common shares		180	180
Paid in capital		104,230	104,230
Share-based payments reserve		5,613	5,589
Surplus		13,246	23,901
Total Shareholders' Equity		123,269	133,900
(Basis of presentation and going concern – Note 2)		193,471	200,597

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

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

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

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

US$000's except per share amounts

	Years Ended December 31,	
	2018	2017
Revenues		
Crude oil and natural gas *(Note 16)*	30,962	29,446
Expenses		
Operating *(Note 16)*	23,359	20,887
Marketing and transportation	107	107
Administrative	3,606	3,093
Depreciation and amortization *(Note 8)*	6,479	8,798
	33,551	32,885
Loss from operating activities	(2,589)	(3,439)
Interest expense *(Note 15)*	(8,103)	(6,138)
Foreign exchange gain (loss)	37	(37)
Change in fair value of warrants *(Note 12)*	-	546
Net loss	(10,655)	(9,068)
Total comprehensive loss	(10,655)	(9,068)
Per share		
Loss per share, basic and diluted *(Note 13)* **	($0.59)	($0.54)

** Loss per share, basic and diluted has been retrospectively adjusted to reflect the consolidation of the issued and outstanding common shares into a lesser number of issued common shares on the basis of a ratio of then (10) pre-Consolidation common shares for each one post-Consolidation common share (the "**Consolidation**").

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

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

	Years Ended December 31,	
	2018	2017
Common shares *(Note 13)*		
Balance, beginning of year	180	157
Issued pursuant to private placements	-	21
Issued in satisfaction of debt	-	2
Balance, end of year	180	180
Paid in capital		
Balance, beginning of year	104,230	100,852
Issued pursuant to private placements	-	3,041
Issued in satisfaction of debt	-	337
Balance, end of year	104,230	104,230
Share-based payments reserve		
Balance, beginning of year	5,589	5,508
Share-based payments	24	81
Balance, end of year	5,613	5,589
Surplus		
Balance, beginning of year	23,901	32,969
Net loss for the year	(10,655)	(9,068)
Balance, end of year	13,246	23,901
Total Shareholders' Equity	123,269	133,900

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

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

	Years Ended December 31,	
	2018	2017
Operating Activities		
Net loss for the year	(10,655)	(9,068)
Items not affecting cash:		
Share-based payments *(Note 14)*	-	30
Share-based compensation *(Note 14)*	(69)	31
Gain on sale of property and equipment *(Note 8)*	(253)	-
Depreciation and amortization	6,479	8,798
Interest expense *(Note 15)*	8,103	6,138
Unrealized foreign exchange (gain) loss	(35)	29
Change in fair value of warrants *(Note 12)*	-	(546)
Cash Provided by operating activities before change in operating working capital	3,570	5,412
Change in operating working capital *(Note 17)*	11,302	(729)
Cash Provided by Operating Activities	14,872	4,683
Financing Activities		
Proceeds from issue of common shares *(Note 13)*	-	3,062
Proceeds from short term loans	-	70
Change in working capital *(Note 11)*	(12,908)	
Cash (Used in) Provided by Financing Activities	(12,908)	3,132
Investing Activities		
Proceeds from sale of property and equipment *(Note 8)*	2,579	-
Property and equipment	(1,268)	(4,090)
Change in working capital *(Note 17)*	(3,453)	(4,334)
Cash Used in Investing Activities	(2,142)	(8,424)
Effect of exchange rates on changes in cash	2	(11)
Increase (decrease) in Cash and Cash Equivalents	(176)	(620)
Cash and Cash Equivalents, beginning of year	741	1,361
Cash and Cash Equivalents, end of year	565	741

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

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation ("**Greenfields**" or the "**Company**"), incorporated in the Cayman Islands, is an oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan ("**Azerbaijan**"). The head office of the Company is located at 211 Highland Cross Drive, Suite 250, Houston, Texas, 77073, U.S.A., and the registered office is located at 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The Company's common shares are listed on the Toronto's TSX Venture Exchange ("**TSXV**") under the trading symbol "GNF".

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

Operating Environment of the Company

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

2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("**IFRS**")* as issued by the *International Accounting Standards Board ("**IASB**")*. The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based compensation transactions which are measured at fair value as discussed in *Note 3 – Significant Accounting Policies*.

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

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

These consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on April 26, 2019.

The Company is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment is dependent upon its ability to complete the development of oil and gas properties which includes meeting the related financing requirements. For the year ended December 31, 2018, the Company reported a net loss of $10.7 million (December 31, 2017 – net loss of $9.1 million) and has an accumulated surplus of $13.2 million as at December 31, 2018. However, the Company has a negative working capital balance of approximately $17.8 million as at December 31, 2018. Consequently, the Company's ability to continue as a going concern depends on the Company being successful in raising additional capital through debt financing or issuing equity on favorable terms; collecting amounts due the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd. (the "**Lender**" or "**Vitol**"), executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, in the aggregate of $53.3 million, was converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments were scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (iv) payment of the 3% restructuring fee due the Lender under the Twelfth Amending Agreement was extended from November 1, 2018 to January 31, 2019. Per subsequent agreements with the Lender, payment of the cited restructuring fee as well as the scheduled mandatory early repayments due in January and April 2019 have been deferred to May 31, 2019 (the "**Deferrals**"). See *Note 23 - Subsequent Events*.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company's subsidiaries as at December 31, 2018 and 2017.

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

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

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

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

Cash and cash equivalents

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

Accounts receivable

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

Exploration and evaluation costs ("E&E")

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

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

Development costs

All costs directly associated with the development of oil and natural gas reserves are recognized as property, plant and equipment assets if the expenditures extend or enhance the recoverable reserves of the underlying assets. Such costs include property acquisitions, carrying amounts reclassified from E&E assets to property, plant and equipment, drilling and completion costs, geological and geophysical costs related to development activity in the Contract Rehabilitation Area, gathering and processing infrastructure and directly attributable general and administration costs.

Repairs and maintenance and operational expenditures that do not extend or enhance recoverable reserves are charged to profit or loss when incurred.

Property and equipment ("P&E")

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

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

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

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

Impairment and reversals of impairment

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

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

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

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

Decommissioning liabilities

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

Carried interest

The Company recognizes its expenditures under a carried interest arrangement with respect to its interest and the interest retained by the other party as and when the costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred expenditures. In relation to the SOA's 20% interest the ERDPSA, the Company recognizes operating expenses and capital expenditures in excess of amounts reimbursed by SOA.

Share-based payments

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

Income taxes

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

The company has elected not to recognize a deferred income tax asset until such time recovery and offset against future income can be assured.

On December 22, 2017, the Tax Cuts and Jobs Act ("**TCJA**") was enacted into law. The TCJA includes significant changes to the U.S. corporate income tax structure, including a federal corporate rate reduction from 35% to 21% effective January 1, 2018. The enactment of the TCJA reduced the value of the deferred tax asset at December 31, 2017 from $15.8 million to $9.5 million, before derecognition of the deferred tax asset. For further detail, see *Note 18 - Deferred Income Taxes*.

Revenue recognition

Revenue from sales of crude oil, natural gas and natural gas liquids (together the "**Petroleum**") is recognized when the significant risks and rewards from ownership have been transferred. This occurs when the product is physically delivered, the tittle passes to the buyers and collection is reasonably assured.

Revenue represents the Company's entitlement of Petroleum production marketed by SOCAR pursuant to the ERDPSA after in-kind production volumes delivered to SOCAR as Compensatory Petroleum ('**CP**") and the government's share of profit petroleum. Entitlement of Petroleum production means the share of Non-Compensatory Petroleum ('**NCP**") each ERDPSA party has the right and obligation to own, lift and dispose of at the ERDPSA specified delivery points for sale.

The Company's share of entitlement Petroleum production recognized as revenue represents the aggregation of the Company's share of both cost recovery petroleum and profit petroleum and the allocation of SOA's 20% share of cost recovery petroleum as stipulated by the ERDPSA Carry 1 recovery provisions.

Leases

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

Per share amounts

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company measures financial assets and liabilities at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument classification as fair value through profit or loss ("**FVTPL**"), amortized cost ("**Amortized cost**") and fair value through other comprehensive income ("**FVTOCI**").

- *FVTPL*: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to the statements of comprehensive income.
- *Amortized cost*: Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method.
- *FVTOCI*: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Fair value hierarchy

The Company uses the following three-level hierarchy to categorize the significance of the inputs used in measuring or disclosing the fair value of financial instruments:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Valuations in this level are those with inputs that are less observable or unavailable or where the observable data does not support the majority of the instrument's fair value.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on its financial assets measured at amortized cost. Expected credit losses exist if one or more loss events occur after initial recognition of the financial asset which has an impact on the estimated future cash flows of the financial asset and that impact can be reliably measured. The Company uses a combination of historical and forward-looking information to determine the appropriate expected credit loss. The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in operating expenses.

Foreign currency translation

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

Borrowing Costs

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

Critical judgments, estimation uncertainty and assumptions

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

a) Cash generating units

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

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

b) Functional currency

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

c) Decommissioning liabilities

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

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

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

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

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

d) *Exploration and evaluation*

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

e) Fair value measurement

The Company measures the fair value of financial instruments at each statement of financial position date. See *Note 21 – Financial Instruments and Financial Risk Management* for fair values of financial instruments measured at amortized cost. The Company uses valuation techniques and makes judgments to determine how relevant and sufficient data should be in measuring fair value. Changes in estimates and assumptions could affect the reported fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The recoverable amounts of the Company's CGUs have been determined based on the higher of value-in use calculations and fair values less cost to sell. The fair value of the Company's investment in the Bahar Project is estimated based on the net present value of proved plus probable reserves using a pre-tax discount rate of 10% as determined by independent qualified reserves evaluators.

f) Deferred taxes

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

In 2011 the Company elected to derecognize its accumulated deferred tax asset but will continue to reassess the unrecognized deferred tax asset at the end of each reporting period. *See Note 18 – Deferred Income Taxes*.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new standards, amendments and interpretations which application was effective January 1, 2018. The most significant standards applied for first time include:

IFRS 9 "**Financial Instruments**"

Effective January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* (as amended in July 2014), replacing the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company applied the new standard retrospectively and, in accordance with the transitional provisions, comparative figures have not been restated. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at fair value through profit or loss, amortized cost or fair value through other comprehensive income. The previous measurement categories under IAS 39 of held to maturity, loans and receivables and available for sale are eliminated. No adjustments were required for the Company's measurement of financial instruments or accumulated surplus as result of adopting IFRS 9.

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

In terms of classification of financial instruments, the adoption of IFRS 9 resulted in changes to the classification of some of the Company's financial assets. There was no difference in the measurement of financial assets under IFRS 9 due to its short-term and liquid nature. No classification change was required for the Company's financial liabilities. The following table sets forth the change in classification categories for the Company's financial assets and liabilities as a result of the implementation of IFRS 9.

Financial Instrument	**Measurement Category**	
	IAS 39	**IFRS 9**
Cash	Held-for-trading (FVTPL)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities (amortized cost)	Amortized cost

IFRS 15 "Revenue from Contracts with Customers"

In May 2014 the IASB published IFRS 15 *Revenue from Contracts with Customers* to replace IAS 18 *Revenue*, which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company concluded that IFRS 15, effective for annual reporting years beginning January 1, 2018, did not have a material impact on its consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment"

The IASB issued amendments to IFRS 2, effective January 1, 2018, to address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The Company concluded the Amendments to IFRS 2, effective for annual reporting years beginning January 1, 2018, did not have a material impact on its consolidated financial statements.

In relation to accounting standards issued but not yet effective, the Company intends to adopt the following standard for annual periods beginning January 1, 2019:

IFRS 16 "Leases"

The new standard replaces IAS 17 *Leases.* IFRS 16 eliminates the distinction between operating and financing leases and provides a single lessee accounting model that requires the lessee to recognize assets and liabilities for most leases in its statement of financial position. IFRS 16 is applicable for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the standard including identifying and reviewing contracts that are impacted. The Company expects that the standard will have an immaterial impact on the financial statements.

5. ACCOUNTS RECEIVABLE

Accounts receivable are mainly from sales of crude oil and gas under the ERDPSA. The receivables are non-interest bearing and generally collected on 30 to 90 day terms. As at December 31, 2018, the Company had the following outstanding accounts receivable balances:

	Years Ended December 31,	
US$000's	2018	2017
Crude oil	2,074	2,172
Natural gas	2,479	5,559
Other receivables (1)	505	971
	5,058	8,702

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

6. RELATED PARTY TRANSACTIONS

Accounts receivable related party

As at December 31, 2018, the Company had a related party receivable balance of $0.7 million (December 31, 2017 - $0.9 million) in connection with Protocol Proceeds. See *Protocol on Carry of SOA Certain Costs in Note 16 – Segment Information*.

US$000's	
SOA related party receivable at December 31, 2017	918
Protocol Proceeds accrued during the year	4,250
Protocol Proceeds collected during the year	(4,485)
SOA related party receivable at December 31, 2018	683

Accounts payable related parties

As at December 31, 2018, the Company had an accounts payable related parties balance of $2.6 million (December 31, 2017 - $2.0 million). The balance consists of funds owed to Vitol's subsidiaries in connection with a $1.4 million restructuring fee under the Twelfth Amending Agreement (see *Note 11 - Long Term Loan Related Party*) and $1.2 million in fees for technical consulting services.

Compensation of key management personnel

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

	Years Ended December 31,	
US$000's	2018	2017
Short-term benefits	1,276	1,389
Share-based payments	(55)	13
	1,221	1,402

7. INVENTORIES

At December 31, 2018, the Company had operating inventories of $3.3 million (December 31, 2017 - $2.5 million) consisting of spare parts, consumables, lubricants and fuel. Inventories are stated at the lower of cost or net realizable value.

8. PROPERTY AND EQUIPMENT, NET

US$000's	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2017	199,524	347	199,871
Additions	4,721	-	4,721
Disposals	(2,326)	-	(2,326)
As at December 31, 2018	201,919	347	202,266
Less: Accumulated DD&A			
As at December 31, 2017	12,812	340	13,152
Additions	6,475	4	6,479
As at December 31, 2018	19,287	344	19,631
Net property and equipment			
As at December 31, 2017	186,712	7	186,719
As at December 31, 2018	182,632	3	182,635

Per agreement between BEOC, SOA and SOCAR, in May 2018 BEOC completed the sale of casing to SOCAR Drilling Trust ("SDT") for consideration of $2.6 million. SDT, a SOCAR subsidiary currently providing drilling services to the Bahar Project, requested BEOC's assistance to dispose of casing originally acquired for the Gum Deniz Field and which has not been programmed for use in the near term. The above indicated agreement also stipulates the consideration from the sale be used exclusively for the settlement of BEOC's outstanding payables, mainly to SDT, other SOCAR service providing entities and other vendors.

In connection with the sale of casing, the Company recorded a gain of $253 thousand which is reflected as a reduction of operating expenses in the statement of comprehensive loss for the year ended December 31, 2018.

Legal title to property and equipment

In accordance with the provisions of the ERDPSA, title to fixed and moveable assets will be transferred to SOCAR upon the earlier of the end of the calendar quarter following the date when all capital costs incurred by the Company are recovered or the termination of the ERDPSA. The definitions of operating costs and capital costs contained within the ERDPSA require subjective interpretation in determining the classification of these expenditures. The classification of these costs as operating expenditures is consistent with the annual work program and the budgets which have been approved by the Steering and Operating Committee of BEOC. In accordance with the terms of the ERDPSA, contractor parties and BEOC are granted the exclusive right of use for petroleum operations of all assets previously used by the "Gum Adasi" Oil and Gas Production Division of SOCAR. These assets are available for use to contractor parties and BEOC for the economic life of the ERDPSA. SOCAR retains the ownership rights to all the original assets, therefore the Company's property and equipment does not include values of those assets transferred by SOCAR at the ERDPSA effective date.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Years Ended December 31,	
US$000's	2018	2017
Trade accounts payable [1]	5,202	11,391
Accrued liabilities	3,922	2,917
	9,124	14,308

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

10. SHORT TERM LOANS

Short Term Loans Related Parties

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

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

	Years Ended December 31,	
US$000's	2018	2017
Related Party Loans - Insiders	550	550
Unamortized deferred loan costs [1]	-	(20)
Carrying value short term loans related parties	550	530
Accrued interest [1]	169	85
Short term loans related parties	719	615

[1] For the year ended December 31, 2018, the Company recorded total interest expense (including amortization of deferred loan costs) of $104 thousand (December 31, 2017 - $135 thousand)

Short Term Loans

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

The balance of Additional Loans is as follows:

	Years Ended December 31,	
US$000's	2018	2017
Additional Loans	2,475	2,475
Unamortized deferred loan costs (1)	-	(90)
Carrying value of short term loans	2,475	2,385
Accrued interest (1)	771	394
Additional Loans	3,246	2,779

(1) For the year ended December 31, 2018, the Company recorded total interest expense (including amortization of deferred loan costs) of $467 thousand (December 31, 2017 - $611 thousand).

11. LONG TERM LOAN RELATED PARTY

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

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

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

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

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd., executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, being $53,284,905, was converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (iv) payment of the 3% restructuring fee due the Lender under the Twelfth Amending Agreement was extended from November 1, 2018 to January 31, 2019. Through subsequent agreements with the Lender, loan quarterly repayments due in January and April 2019 in the aggregate of $6.9 million as well as payment of the 3% loan restructuring fee were deferred to May 31, 2019. See *Note 23 - Subsequent Events*.

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

	Years Ended December 31,	
US$000's	2018	2017
Long term loan related party	53,285	47,146
Unamortized debt issue costs [1]	-	(1,176)
Carrying value of long term loan related party	53,285	45,970
Accrued interest [2]	1,193	976
Quarterly repayments due in 2019 [3]	(12,908)	-
Long term loan related party	41,570	46,946

[1] Relates to the amortization of 3% restructuring fee due Vitol under the Twelfth Amending Agreement.
[2] In connection with the Third Restructured Amount, the Company recorded interest expense of $1.2 million for the year ended December 31, 2018. See *Note 15 – Interest Expense* for breakdown of Long Term Related Party interest expense.
[3] Relates to the aggregation of loan quarterly repayments due in 2019 which amounts were reclassified as Current portion of long term loan related party in the statement of financial position. See also *Note 20 – Commitments and Contingencies.*

12. WARRANTS

Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, on September 9, 2016 the Company issued 8,597,992 common share purchase warrants to the lenders under the Vitol loan. On October 31, 2017, the Company and Vitol executed the Twelfth Amending Agreement to the Loan Agreement pursuant to which all the outstanding common share purchase warrants were terminated.

For the year ended December 31, 2018, the Company recorded $nil (December 31, 2017 – income of $546 thousand) in relation to changes in the fair value of warrants.

13. SHAREHOLDER'S EQUITY

Authorized Share Capital

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

As at December 31, 2018, the authorized share capital of the Company consists of 999,990,000 common shares at a par value of US $0.01 each and 100,000 preferred shares at a par value of US $0.001 each.

Common Shares

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

Preferred Shares

The Board may issue Preferred Shares at any time and from time to time in one or more series. The Board has the authority to issue Preferred Shares in series and determine the price, number, designation, rights, privileges, restrictions and conditions, including dividend rights, conversion rights, and rights with respect to the distribution of assets in the event of the dissolution or winding up of the Company and preferential rights, of each series without further vote or action by shareholders. As at December 31, 2018 and 2017 there were no preferred shares issued and outstanding.

Common shares and paid in capital continuity schedule:

Outstanding common shares *US$000's, except for share amounts*	Number of Common Shares	Amount
As at December 31, 2017	17,980,781	104,410
Issued during the year	nil	-
As at December 31, 2018	17,980,781	104,410

Per Share Information

(US$000's, except for share and per share amounts)	Years Ended December 31,	
	2018	2017
Weighted average number of common shares outstanding	17,980,781	16,904,074
Loss for the year	(10,655)	(9,068)
Basic and diluted loss per share	($0.59)	($0.54)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the year that the equity instruments were outstanding. For the year ended December 31, 2018, 76,500 outstanding share options (December 31, 2017 – 177,000 share options) were excluded from calculating dilutive loss per share as they were anti-dilutive. As at December 31, 2018 and December 31, 2017, the Company did not hold any common shares in treasury.

Private Placements

On May 12, 2017, the Company completed a non-brokered private placement of 239,863 common shares of the Company at a price of CAD$2.00 per share (USD$1.46) for aggregate gross proceeds of $350 thousand. This placement included the participation of insiders of the Company to whom a total of 119,863 common shares of the Company were issued for proceeds of $175 thousand.

Also, on June 27, 2017, the Company completed a brokered private placement of 1,825,820 common shares of the Company at a price of CAD$2.00 per share (USD$1.48) for aggregate gross proceeds of $2.7 million.

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

Common shares issued in satisfaction of debt

On June 27, 2017, the Company executed a debt settlement agreement with certain employees and consultants of the Company. Through this settlement, the Company issued a total of 229,180 common shares of the Company in satisfaction of balances payable in the amount of $339 thousand. The common shares were issued at the deemed price of CAD$2.00 (USD$1.48) per common share.

14. SHARE BASED PAYMENTS

The share-based payments recorded by the Company are associated with share options and share-based cash settled bonuses for employees and directors. Share-based payment expenses for the year ended December 31, 2018 were ($69) thousand (December 31, 2017 – $61 thousand).

	Year Ended December 31,	
US$000's	2018	2017
Third party services - share settled	-	30
Employees and Directors		
Share settled - Share options	24	81
Cash settled - Contingent bonus [(1)]	(32)	(54)
Cash settled - Cash bonus awards [(1)]	(61)	4
Subtotal	(69)	31
Total share-based payments	(69)	61

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

Share Options

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

> *When an optionee incurs a tax liability in connection with an option which is subject to tax withholding under applicable tax laws and the optionee is obligated to pay the Company the required withholding amount due, the optionee may satisfy the tax withholding obligation in two methods other than payment in cash; (i) by*

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

surrendering to the Company common shares that have been owned by the optionee for more than six months on the date of surrender with a market value equal to the withholding tax obligation or (ii) by electing to have the Company withhold from the common shares to be issued upon exercise of the options the number of common shares having a market value equal to the tax amount required to be withheld.

The fair value of each share option is estimated on the date of the respective award using an option pricing model. During 2017, the Company used the following assumptions in the fair value estimation of awarded share options:

Risk-free interest rate range	0.5% - 2%
Expected life range	1.1 - 5.0 years
Expected volatility range	40% - 87%
Weighted average forfeiture rate	1.3%
Weighted average fair value	$13.60

Stock Options Continuity Schedule:

	December 31, 2018		December 31, 2017	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of year	177,000	14.85	112,000	20.90
Granted	-	-	65,000	2.90
Expired	(59,000)	32.00	-	-
Forfeited	(41,500)	4.66	-	-
Outstanding, end of year	76,500	7.35	177,000	14.85
Exercisable, end of year	44,000	10.64	82,000	28.88

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

The exercise price of the outstanding share options ranges from CAD$2.90 to CAD$32.50 per common share with all options expiring on various dates between years 2019 and 2022. At December 31, 2018, the exercisable options have remaining contractual lives up to three years.

For the year ended December 31, 2018, the Company recorded share options expense of $24 thousand (December 31, 2017 - $81 thousand). The corresponding share options expense is recorded within the Company's share-based payment reserve.

On January 22, 2019 the Company entered into stock option surrender agreements with existing stock option holders to voluntarily surrender 11,500 stock options for nil consideration. See *Note 23 – Subsequent Events*.

Contingent Bonus

On January 12, 2015, the Company awarded the right to 50,049 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Company; or such earlier vesting date as determined by the board. Also, at the option of the board, the contingent bonus may be settled by the Company in cash at the settlement date, with the value of common share determined by the closing price of the Company's common shares at such settlement date. The payment date for the contingent bonus has been deferred (the "**Deferred Payment Date**") until the first to occur of the following: January 1, 2020; the date of a change of control of the Company; or such earlier Payment Date as determined by the board.

At the award date, these rights were valued at the price of CAD$2.80 (USD$2.10) for a total share award expense of $103 thousand which was accrued as a contingent liability. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated liability for the contingent bonus at December 31, 2018 was $22 thousand (December 31, 2017 - $54 thousand). For the year ended December 31, 2018, the Company recorded a decrease of $32 thousand (December 31, 2017 – decrease of $54 thousand) in the fair value of the contingent bonus liability.

Restricted Cash Bonus Program

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

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

On January 20, 2015, the Company awarded 10,787 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 9,453 units vesting on January 1, 2015 (the "**Original Vesting Date**"). The deferral bonus units originally had a vesting date of January 1, 2016 (the "**Deferral Vesting Date**") and would be settled at the share price of the Company's common share on either the Original Vesting Date or the Deferral Vesting Date, whichever share price was higher. The payment date (the "**Deferred Payment Date**") for both awards has been deferred until the first to occur of the following: January 1, 2020; the date of a change of control of the company; or such earlier Payment Date as determined by the board. The estimated FVBCB liability at December 31, 2018 was $184 thousand (December 31, 2017 - $184 thousand) in connection with 24,740 units outstanding at such date.

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

For the year ended December 31, 2018, the Company recorded restricted cash bonus expense of $nil (December 31, 2017 – $nil).

Fair Value Director Cash Bonus Program

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

The estimated FVDCB liability at December 31, 2018 was $41 thousand (December 31, 2017 - $102 thousand). The liability is amortized over the three years vesting period and is also fair valued at each reporting date with adjustments recorded through profit and loss. For the year ended December 31, 2018, the Company recorded a decrease of $61 thousand (December 31, 2017 – increase of $4 thousand) in the fair value of the FVDCB liability.

Key Employee Contingent Incentive Plan Award

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

The KECIP program does not grant any entitlement to common shares or other equity interest in the Company. The KECIP units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. On May 12, 2017 and March 1, 2018, the Company awarded additional 73,000 and 50,000 KECIP units, respectively, to two employees and two contractors. After the forfeiture of 56,750 units, at December 31, 2018 the Company had 1,194,750 KECIP units outstanding of which 878,375 units were vested (December 31, 2017 – 598,500). No expense has been recorded for the issuance of the KECIP units as of December 31, 2018, as the related cash settlement value can only be determined when a monetization event takes place.

15. INTEREST EXPENSE

	Years Ended December 31,	
US$000's	2018	2017
Interest expense – long term loan (1)	-	4,200
Interest expense – long term loan (Restructured Amount) (2)	6,339	1,191
Interest expense – long term loan (Third Restructured Amount) (3)	1,193	-
Interest expense – short term loans (4)	571	747
	8,103	6,138

(1) Represents interest expense related to the long-term loan related party under the August 9, 2016 Ninth Amending Agreement.

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

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

(4) Represents interest expense (including the amortization of deferred loan costs) related to the current short-term loans. In December 2018, the lenders agreed to extend the maturity of these loans from December 31, 2018 to June 30, 2019.

16. SEGMENT INFORMATION

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

Total Assets and Liabilities

(US$000's)	December 31, 2018			December 31, 2017		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	10,679	157	10,836	13,121	757	13,878
Capital assets	182,631	4	182,635	186,711	8	186,719
Total assets	193,310	161	193,471	199,832	765	200,597
Current liabilities	(6,276)	(22,356)	(28,632)	(13,324)	(6,427)	(19,751)
Non-current liabilities	-	(41,570)	(41,570)	-	(46,946)	(46,946)
Total liabilities	(6,276)	(63,926)	(70,202)	(13,324)	(53,373)	(66,697)

Capital Expenditures

	Years Ended					
(US$000's)	December 31, 2018			December 31, 2017		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	4,721	-	4,721	8,422	1	8,423

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Years Ended					
(US$000's)	December 31, 2018			December 31, 2017		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	30,962	-	30,962	29,446	-	29,446
Expenses						
Operating	23,359	-	23,359	20,887	-	20,887
Marketing and transportation	107	-	107	107	-	107
Administrative	-	3,606	3,606	-	3,093	3,093
Depreciation and amortization	6,477	2	6,479	8,796	2	8,798
	29,943	3,608	33,551	29,790	3,095	32,885
Income (loss) from operating activities	1,019	(3,608)	(2,589)	(344)	(3,095)	(3,439)
Interest expense	-	(8,103)	(8,103)	-	(6,138)	(6,138)
Foreign exchange gain(loss)	-	37	37	-	(37)	(37)
Fair value of warrants issued	-	-	-	-	546	546
Net income (loss)	1,019	(11,674)	(10,655)	(344)	(8,724)	(9,068)

Revenues

BEL's entitlement share of production from crude oil, natural gas and natural gas liquids (together the "**Petroleum**") recognized as revenue represents its share of both cost recovery petroleum and profit petroleum and the allocation of SOA's 20% share of cost recovery petroleum as stipulated by the ERDPSA Carry 1 recovery provisions. For the years ended December 31, 2018 and 2017, the Company recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Years Ended December 31,	
US$000's	2018	2017
BEL's share of Petroleum entitlement production	25,199	23,568
SOA's cost recovery Petroleum production	5,763	5,878
BEL's entitlement revenue	30,962	29,446

Protocol on Carry of SOA Certain Costs

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

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

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

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

Capital Expenditures

BEL's capital expenditures represent the aggregation of the BEL's 80% share of expenditures and the remaining portion of SOA expenditures funded by BEL, due to SOA's insufficient funding of their share of capital expenditures, which are added to the Carry 1. For the years ended December 31, 2018 and 2017, the Company recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Years Ended December 31,	
US$000's	2018	2017
BEL's 80% share of capital expenditures	4,358	7,277
SOA's 20% share of capital expenditures	1,090	1,820
Less: Protocol Proceeds (Effective from April 17, 2017)		
Profit petroleum	(101)	(56)
Value of SOCAR's Compensatory petroleum	(626)	(619)
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	363	1,145
Total capital expenditures	4,721	8,422

Operating costs

BEL's operating costs represent the aggregation of the BEL's 80% share of costs and the remaining portion of SOA's costs funded by BEL, due to SOA's insufficient funding of their share of operating costs, which are added to the Carry 1. For the years ended December 31, 2018 and 2017, the Company recognized operating costs from BEL's participation in the ERDPSA as follows:

	Years Ended December 31,	
US$000's	2018	2017
BEL's 80% share of operating costs	21,708	18,097
SOA's 20% share of operating costs	5,427	4,524
Less: Protocol Proceeds (Effective from April 17, 2017)		
Profit petroleum	(489)	(145)
Value of SOCAR's Compensatory petroleum	(3,034)	(1,589)
BEL's net overfunding of operating costs (SOA's funding deficiency)	1,904	2,790
BEL's net gain on sale of casing (1)	(253)	-
Total operating costs	23,359	20,887

(1) Represents a one-time net gain realized by BEL in connection with the sale of casing completed by BEOC in May 2018. See *Note 8 – Property & Equipment*.

In relation to Protocol Proceeds, for the year ended December 31, 2018, the Company had a receivable balance of $0.7 million (December 31, 2017 - $0.9 million) consisting of uncollected Protocol Proceeds. See *Note 6 – Related Party Accounts Receivable and Payable*.

For the year ended December 31, 2018, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $2.3 million (December 31, 2017 - $3.9 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, 2018 the balance of Carry 1 is as follows:

US$000's	
Carry 1 - Opening Amount at January 1, 2018	37,729
SOA's share of capital expenditures funded by BEL	1,090
SOA's share of operating costs funded by BEL	5,427
SOA's share on disposal of property and equipment [2]	(516)
Protocol Proceeds accrued	(4,250)
SOA's share of cost recovery Petroleum production	(5,763)
Carry 1 - Outstanding Amount at December 31, 2018 [1]	33,717

[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.

[2] See *Note 8 – Property and Equipment, Net.*

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in working capital items related to operating activities:

	Years Ended December 31,	
US$000's	2018	2017
Trade receivables	3,644	4
Receivables from related parties	235	(918)
Advances for operating activities	(363)	(29)
Prepaid expenses and deposits	118	(37)
Inventories	(769)	(1,305)
Accounts payable and accrued liabilities	(5,056)	(493)
Accounts payable related parties	585	2,049
Current portion long term loan related party	12,908	-
	11,302	(729)

Changes in working capital items related to financing activities:

	Years Ended December 31,	
US$000's	2018	2017
Current portion long term loan related party	(12,908)	-

Changes in working capital items related to investing activities:

	Years Ended December 31,	
US$000's	2018	2017
Accounts payable and accrued liabilities	(3,453)	(4,334)

18. DEFERRED INCOME TAXES

The provision for income taxes differs from the result that would have been obtained by applying the U.S. federal income tax rate of 21% (35% in 2017) to the loss before income taxes. The difference results from the following items:

US$000's	Year Ended December 31, 2018	2017
Comprehensive income (loss) before income taxes	(10,655)	(9,068)
U.S. federal corporate income tax rate	21%	35%
Expected income tax (recovery) expense computed at statutory rates	(2,237)	(3,174)
Add (deduct) the tax effect of:		
Non-taxable / deductible items	15	4
Acquisition transaction	-	-
Debt Restructuring	-	(191)
Deferred income tax (recovery) expense per calculation	(2,222)	(3,361)
Derecognition of deferred tax asset for current year	2,222	3,361
Deferred income tax (recovery) expense per statements	-	-
Current year deferred income taxes consist of:		
Current tax (recovery)	(2,185)	(3,296)
Deferred tax (recovery)	(37)	(65)
Deferred income tax (recovery) before tax asset derecognition	(2,222)	(3,361)
Deferred tax asset not brought to account	2,222	3,361
Deferred income tax expense (recovery)	-	-

Deferred Income Tax Asset

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

US$000's	Recognized in profit or loss	Recognized in equity	Total
As at December 31, 2017	(3,361)	-	(3,361)
Derecognition of deferred tax asset	3,361	-	3,361
As at December 31, 2017 after derecognition	-	-	-
Current loss carry-forward	(2,222)	-	(2,222)
As at December 31, 2018	(2,222)	-	(2,222)
Derecognition of deferred tax asset	2,222		2,222
As at December 31, 2018 after derecognition	-	-	-

At December 31, 2018, the Company has cumulative loss carry-forwards of approximately $55.6 million that will expire between the years 2034 and 2038. The Company elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured. During December 2017, the US enacted the Tax Cuts and Jobs Act of 2017 (the "**2017 Tax Act**"), which substantially reduced the federal tax rate for US corporations from 35% to 21% commencing in 2018. The Company has previously recorded an allowance to fully derecognize its cumulative deferred tax asset determined under the previous statutory federal income tax rate of 35%. As of December 31, 2017, the remeasurement of the cumulative deferred tax asset using the newly enacted statutory federal tax rate of 21% resulted in a reduction of approximately $6.2 million. Accordingly, the allowance to derecognize the cumulative deferred tax assets was adjusted.

19. EXPENSES BY NATURE

ADMINISTRATIVE	Years Ended December 31,	
US$000's	2018	2017
Employee wages and benefits	1,589	1,613
Share-based payments	(69)	61
Professional service costs	1,352	716
Office, travel and other	734	703
Total expenses by nature	3,606	3,093

20. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2018:

US$000's	**2019**	**2020**	**Thereafter**
Operating leases (1)	24	-	-
Short term loans – interest (2)	1,175	-	-
Short term loans – principal (2)	3,025	-	-
Long term loan – interest (3)	-	-	11,461
Long term loan – principal (3)	12,908	9,731	30,595
Long term loan – restructuring fee (4)	1,414	-	-
	18,546	9,731	42,056

(1) The Company has leased office space for its corporate headquarters in the United States through June 2019.

(2) Represents outstanding principal and accrued interest for short term loans which maturity was extended from December 31, 2018 to June 30, 2019.

(3) Represents long term loan contractual principal payment obligations in 2019 and at maturity date of January 31, 2021 as well as accrued interest also due at maturity. Effective October 31, 2018, under a new amending agreement with the Lender, the maturity of this loan was extended until January 31, 2021.

(4) Represents a 3% structuring fee on the Restructured Amount per the 12th Amending Agreement with the Lender. Per subsequent agreements with the Lender, payment of this restructuring fee was extended until May 31, 2019. See *Note 23 - Subsequent Events*.

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

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

a) *Credit risk*

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

As at December 31, 2018, the Company's accounts receivable primarily consists of receivables from crude oil and natural gas sales to SOCAR. At December 31, 2018, receivables from crude oil and natural gas sales had an average of 30 days outstanding. All receivable balances are considered by management to be collectable.

Cash and cash equivalents consist of bank deposits held in major United States banks for corporate activities and cash held by BEOC in Azerbaijan for operating activities. Cash held in bank accounts are exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions for corporate accounts in the United States and for BEOC operating accounts in Azerbaijan. The Company's maximum exposure to credit risk at December 31, 2018 and December 31, 2017 is as follows:

	Years Ended December 31,	
US$000's	2018	2017
Cash and cash equivalents	565	741
Accounts receivable	5,058	8,702
Accounts receivable related party	683	918
Advances for operating activities	1,193	830
	7,499	11,191

b) *Liquidity risk*

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

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

The Company's financial liabilities as at December 31, 2018 and 2017 arose primarily from corporate obligations and payables incurred by BEOC. Payment terms on accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest. The settlement of accounts payable is subject to liquidity and may extend payment terms. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	December 31, 2018			December 31, 2017
US$000's	Within 1 year	Within 1 – 3 years	Total	Total
Accounts payable and accrued [(1)]	9,124	-	9,124	14,308
Accounts payable related parties [(2)]	2,635	-	2,635	2,049
Short term loans – interest [(3)]	1,175	-	1,175	817
Short term loans - principal [(3)]	3,025	-	3,025	3,025
Long term loan – interest [(4)]	-	11,461	11,461	12,568
Long term loan – principal [(4)]	12,908	40,376	53,284	47,146
	28,867	51,837	80,704	79,913

[(1)] As at December 31, 2018 and 2017 the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.

[(2)] Accounts payable related parties consists of obligations with Vitol's subsidiaries. Amount includes $1.4 million in loan restructuring fees and $1.2 million in technical consulting fees. Effective December 31, 2018, under a new amending agreement with the Lender, payment of the loan restructuring fee was extended until May 31, 2019. See *Note 23 - Subsequent Events.*

[(3)] Represents outstanding principal and accrued interest estimated through maturity for short term loans. In December 2018 maturity was extended from December 31, 2018 to June 30, 2019.

[(4)] Represents principal and accrued interest estimated through maturity for long term loans maturing January 31, 2021. See *Note 11 – Long Term Loan Related Party*.

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as the result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars. As at December 31, 2018 and 2017, the Company had no forward exchange contracts in place.

d) Commodity price risk

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

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

As at December 31, 2018 and 2017, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company's long term loan related party has an interest rate of LIBOR plus 11%. A 1% increase in projected LIBOR would increase interest expense approximately $1.1 million over the remaining life of the loan.

Fair value of financial instruments

The Company measures financial assets and liabilities at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument classification as described below:

- *FVTPL*: Financial instruments designated at fair value through profit or loss are initially recognized and subsequently measured at fair value with changes in those fair values immediately charged to the statements of comprehensive income. The Company does not have any financial instruments under this classification.
- *Amortized cost*: Financial instruments designated as amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Under this classification the Company includes cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and loans.
- *FVTOCI*: Financial instruments designated as fair value through other comprehensive income are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. The Company does not have any financial instruments under this classification.

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

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

22. CAPITAL STRUCTURE AND MANAGEMENT

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

Composition of the Company's capital structure	Years Ended December 31,	
US$000's	2018	2017
Working Capital deficit	(17,796)	(5,873)
Long term debt and shareholders' equity	164,839	180,846
Ratios of working capital deficit to long term debt and shareholders' equity	(11%)	(3%)

23. SUBSEQUENT EVENTS

Extension of Debt Payment

The Company executed payment deferral letters with Vitol to defer payments, in the aggregate of $8.3 million, until May 31, 2019. The Company anticipates that the Deferrals will give the Company sufficient time to comply with its obligations under the Thirteenth Amending Agreement.

Voluntary Options Surrender

On January 29, 2019, the Company entered into option surrender agreements with certain existing option holders of the Company to voluntarily surrender for cancellation an aggregate of 11,500 stock options (post-Consolidation) issued pursuant to the Company's Stock Option Plan. The surrender of stock options was effective immediately and completed for nil consideration.

Appointment of COO

Mr. Norman Benson, who served Greenfields as Senior Vice President, Chief Operations Officer and President of BEOC, will step down from those positions effective May 1, 2019. Mr. Benson has been very instrumental in directing the production activities of the Company for over the past six years. The Company will appoint Mr. John Harkins to replace Mr. Benson as COO of Greenfields and President of BEOC, in addition to his current roles as President and Chief Executive Officer of Greenfields.