GREENFIELDS PETROLEUM CORPORATION

Consolidated Financial Statements

For the years ended
December 31, 2016 and 2015

PANNELL
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Independent Auditors' Report

To the Shareholders of
Greenfields Petroleum Corporation

We have audited the accompanying consolidated financial statements of Greenfields Petroleum Corporation (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2016 and the consolidated statement of comprehensive Income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements of the Company as of and for the year ended December 31, 2015, were audited by other auditors whose report dated April 29, 2016, expressed an unmodified opinion on those statements.

Management's Responsibility 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company has historically incurred substantial loses, has negative working capital and has substantial operating and development obligations necessary as operator of the Bahar Project. The Company'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. These conditions, along with other matters, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Pannell Kerr Forster of Texas, P.C.

Pannell Kerr Forster of Texas, P.C.
Houston, Texas
April 28, 2016

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

	Notes	As at December 31, 2016	As at December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents		1,361	100
Accounts receivable	6	8,776	422
Short term loans receivable related party	8	-	26,884
Advances for operating activities		802	-
Prepaid expenses and deposits		70	39
Inventories	9	1,239	-
		12,248	27,445
Non-Current Assets			
Investment in joint venture	10	-	62,077
Property and equipment	11	187,093	1
		199,341	89,523
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	12	13,692	6,923
Short term loan	13	-	27,000
		13,692	33,923
Non-Current Liabilities			
Long term loans related party	14	43,449	-
Loan term loans	14	2,168	24,269
Convertible debentures	15	-	15,132
Warrants	16	546	-
		46,163	39,401
Shareholders' Equity	17		
Common shares		157	22
Paid in capital		100,852	76,935
Share-based payments reserve	18	5,508	5,466
Surplus(deficit)		32,969	(66,224)
Total Shareholders' Equity		139,486	16,199
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 24)		199,341	89,523

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

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

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

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

	Years Ended December 31,	
	2016	2015
Revenues		
Petroleum and natural gas *(Note 20)*	14,422	-
Management service fees	809	1,555
	15,231	1,555
Expenses		
Operating *(Note 20)*	9,341	-
Impairment of accounts receivable *(Note 7)*	2,875	-
Marketing and transportation	52	-
Administrative	5,552	5,048
Depreciation and amortization	4,021	34
	21,841	5,082
Loss from operating activities	(6,610)	(3,527)
Income from acquisition transaction		
Income from fair value of future dividends *(Note 3)*	8,467	-
Gain on acquisition *(Note 3)*	81,524	-
Income (expense) from debt restructuring		
Gain on settlement of long term loan *(Note 14)*	24,137	-
Gain on settlement of debentures *(Note 15)*	13,672	-
Other financing costs *(Note 13)*	(13,854)	-
Fair value of warrants issued *(Note 16)*	(546)	-
Other income (expense)		
Income on investment in joint venture *(Note 10)*	992	2,305
Interest income *(Note 19)*	3,420	3,203
Interest expense *(Note 19)*	(10,803)	(12,457)
Foreign exchange gain(loss)	(1,206)	2,925
Change in fair value of derivative liability	-	27
Income(loss) before income taxes	99,193	(7,524)
Total comprehensive income(loss)	99,193	(7,524)
Per share		
Income(loss) per share, basic and diluted *(Note 17)*	$1.52	($0.34)

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,	
	2016	2015
Common shares *(Note 17)*		
Balance, beginning of year	22	20
Issuance of common shares pursuant to:		
Debt restructuring	86	-
Conversion of debentures	33	-
Settlement of long term loan	12	-
Additional loans	4	-
Private placement	-	2
Balance, end of year	157	22
Paid in capital		
Balance, beginning of year	76,935	74,912
Shares issued pursuant to:		
Debt restructuring	13,768	-
Conversion of debentures	7,646	-
Settlement of long term loan	1,922	-
Additional loans	581	-
Private placement	-	1,798
Repurchase of common shares	-	(3)
Share-based payments	-	228
Balance, end of year	100,852	76,935
Share-based payments reserve *(Note 18)*		
Balance, beginning of year	5,466	5,263
Share-based payments	42	203
Balance, end of year	5,508	5,466
Deficit		
Balance, beginning of year	(66,224)	(58,700)
Income(loss) for the year	99,193	(7,524)
Balance, end of year	32,969	(66,224)
Total Shareholders' Equity	139,486	16,199

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,	
	2016	2015
Operating Activities		
Income(loss) before income taxes	99,193	(7,524)
Items not affecting cash:		
Share-based compensation *(Note 18)*	42	383
Value of shares issued for Loan-2 success fee *(Note 14)*	81	-
Depreciation and amortization	4,021	34
Impairment of accounts receivable	2,875	-
Income from fair value of future dividends	(8,467)	-
Gain on acquisition	(81,524)	-
Gain on settlement of long term loan	(24,137)	-
Gain on settlement of debentures	(13,672)	-
Other financing costs	13,854	-
Fair value of warrants issued	546	-
Income on investment in joint venture	(992)	(2,305)
Interest income	(3,420)	(3,203)
Interest expense	10,803	12,457
Unrealized foreign exchange (gain)loss	1,211	(2,923)
Change in fair value of derivative liability	-	(27)
Cash used in operating activities before changes in non-cash working capital	414	(3,108)
Change in non-cash operating working capital *(Note 21)*	(1,992)	1,796
Cash Used in Operating Activities	(1,578)	(1,312)
Financing Activities		
Proceeds from issue of common shares	-	1,800
Proceeds from short term loans *(Note 13)*	7,000	2,000
Proceeds from long term loans	2,954	2,342
Cash interest paid on convertible debentures and loans	-	(1,117)
Repurchase of common shares	-	(3)
Cash From Financing Activities	9,954	5,022
Investing Activities		
Investment in joint venture *(Note 10)*	-	(666)
Short term loans to related party *(Note 8)*	-	(3,675)
Property and equipment *(Note 11)*	(1,144)	-
Acquisition, net of cash acquired	(5,962)	-
Cash Used in Investing Activities	(7,106)	(4,341)
Effect of exchange rates on changes in cash	(9)	(5)
Increase (Decrease) in Cash and Cash Equivalents	1,261	(636)
Cash and Cash Equivalents, beginning of year	100	736
Cash and Cash Equivalents, end of year	1,361	100

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

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation ("**Greenfields**" or the "**Company**"), incorporated in the Cayman Islands, is a junior oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves 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 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**","**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 purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties as required under the ERDPSA.

Acquisition and Restructuring Transactions

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

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

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

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

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

In addition to the Common Shares issued to Heaney, at closing of the Definitive Agreement, Greenfields paid an agent a success fee for negotiating the terms of the Definitive Agreement which consisted of a cash payment of $1,000,000 and the issuance of 500,000 Common Shares.

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 which could have an impact on the Azerbaijani economy and consequently what effect, if any, they 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 (convertible debentures) and share-based compensation transactions which are measured at fair value as discussed in *Note 4 – Significant Accounting Policies*.

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

These consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on April 25, 2017.

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 properties which includes meeting the related financing requirements. For the year ended December 31, 2016 the Company reported income of $99.2 million (December 31, 2015 – loss of $7.5 million), which includes $113.6 million in one-time net realized gains attributable to the acquisition and restructuring transactions, and has an accumulated surplus of $33 million as at the same date. However, the Company has negative working capital balance of approximately $1.4 million as at December 31, 2016. Consequently, the Company's ability to continue as a going concern is dependent on management's ability to obtain additional funding, to collect amounts due the Company from third parties, to meet ongoing debt obligations and to ultimately achieve profitable operations.

During the year ended December 31, 2016 the Company raised additional funds to complete the acquisition of the 66.67% interest in BEL, restructure debt obligations with its lenders and for working capital purposes. The Acquisition and Restructuring Transaction triples the reserve base of the Company, significantly reduces debt obligations, but results in a substantial increase in the common shares outstanding. The Company will continue to seek funding sources to provide working capital for the Bahar Project and corporate purposes. The Company will also seek borrowing opportunities to replace its senior debt with a lower financing cost facility. Should market conditions improve, the Company will also evaluate the potential for equity placement to replace some or all of its debt obligations.

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

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

3. ACQUISITION OF INTEREST IN BAHAR ENERGY

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

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

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

The Acquisition transaction was accounted for by the purchase method. This is a preliminary purchase equation and is subject to change. The allocation of the purchase price, based on management's fair value estimates, is as follows:

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

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

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

For the year ended December 31, 2016

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

(1) Includes 100% of BEL revenues, including the Company's original 33.33% share recorded through income or loss on Investment in Joint Venture under the equity method of accounting prior to the Acquisition date of August 9, 2016 and Baghlan's 66.67% share of BEL income for the period January 1, 2016 to August 8, 2016.

(2) The above Pro Forma amounts reflect the estimated accounting results that would have occurred had the BEL acquisition been completed on January 1, 2016.

(3) Note that both the "As Stated" and "Pro Forma" amounts include one-time income of $113.6 million associated with the Acquisition and Restructuring Transactions ($90.0 million and $23.6 million, respectively).

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

The above amounts are estimates, which were made by management at the time of the preparation of the financial statements, based on the information available. Amendments may be made to these amounts as the values subject to estimates could change.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company's subsidiaries as at December 31, 2016 and the results of the Company's investment in a joint venture as at August 8, 2016.

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

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

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

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

Cash and cash equivalents

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

Accounts receivable

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

Exploration and evaluation costs ("E&E")

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

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

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 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.

Financial assets

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

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

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

Non-financial assets

Non-financial assets are assessed for indications of impairment or reversals of previous impairments at the end of each reporting period. If any indication of impairments exists, the recoverable amount of the assets 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 exceed the carrying amount that would have been determined, net of DD&A, had no impairment loss been recognized for the asset in prior years.

Share-based payments

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

Income taxes

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

Revenue recognition

Revenues from the sale of crude oil, natural gas and natural gas liquids are recognized when title passes from the Company to its customer. Revenue represents the Company's share of entitlement pursuant to the ERDPSA with SOCAR and does not include the government's share of profit sharing petroleum.

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

Decommissioning liabilities

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

Leases

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

Per share amounts

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

Financial instruments

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

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

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

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

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

Convertible Debentures

On issuance, the convertible debentures are recognized in accordance to its components into a financial liability and an equity conversion feature. The convertible debentures converted under the terms of the Debenture Conversion, represented a liability in their entirety, as the conversion feature did not meet the fixed-for-fixed requirement for equity classification due to the instruments being denominated in Canadian dollars while the functional currency of the Company is U.S. dollars. The convertible feature was thus required to be fair valued at each statement of financial position date using an options pricing model with changes in fair value (including the foreign exchange impact) recognized in profit or loss.

Foreign currency translation

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

Borrowing Costs

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

Critical judgments, estimation uncertainty and assumptions

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

a) Cash generating units

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

The Company exerts influence, as a jointly controlling partner in Bahar Energy Limited, in the preparation of ERDPSA budgets and work plans. In addition, through separate forecast calculations, impairment assessments are carried out for this CGU based on ERDPSA's cash flow forecasts calculated based on independently determined proven and probable reserves.

b) Functional currency

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

c) Joint arrangements

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

Before the completion of the Acquisition Transaction on August 9, 2016, the Company owned 33.33% interest in Bahar Energy, an entity governed by its Articles of Association and the Bahar Shareholders Agreement ("**BSA**") which includes basic formation and governance provisions. The BSA was created so that all shareholders participate equally in the decision-making process and related approvals associated with the Bahar Project. Unanimous consent of the shareholders was required for any resolution to be passed except in the situations disclosed in *Note 10 - Investment in Joint Venture*. Based on these facts and circumstances, the Company determined that the BSA represented a joint arrangement structured through Bahar Energy, a separate entity whose legal existence created separation between the jointly controlling parties in the arrangement and the assets and liabilities of Bahar Energy. Consequently, Bahar Energy satisfied the definition of a *Joint Venture* pursuant to which the Company had contractually agreed to the sharing of control and thus represented a joint venturer under the arrangement. Therefore, the Company's 33.33% interest in Bahar Energy before the completion of the Acquisition Transaction was disclosed as a Joint Venture and accounted for using the equity method.

d) Decommissioning liabilities

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

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

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

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

Based on these facts and circumstances, Bahar Energy will record expenses associated with contributions to the Fund as they become contractually due. Since this financial obligation only requires making systematic cash deposits into the Fund, which are then reimbursed through cost recovery under the ERDPSA, no decommissioning provisions are recorded by the Company.

e) *Exploration and evaluation*

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

f) Fair value measurement

The Company measures the fair value of financial instruments at each statement of financial position date. See *Note 25 – Financial Instruments and Financial Risk Management* for fair values of financial instruments measured at amortized cost. The Company uses valuation techniques and makes judgments to determine how relevant and sufficient data should be in measuring fair value. Changes in estimates and assumptions could affect the reported fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The recoverable amounts of the Company's CGUs have been determined based on the higher of value-in use calculations and fair values less cost to sell. The fair value of the Company's investment in the Bahar Project is estimated based on the net present value of proved plus probable reserves using a pre-tax discount rate of 10% as determined by independent qualified reserves evaluators.

g) Deferred taxes

Judgment is required to determine whether the Company will recognize deferred tax assets in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require assessment of the likelihood that the Company will generate sufficient taxable income in future periods, in order to utilize recognized deferred tax assets. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. Assumptions about the generation of future taxable income depend on the Company's estimates of future earnings from its ownership in Bahar Energy. The Bahar Project, in the early rehabilitation and development stage, requires significant development funding and re-investment of operating cash flows for the foreseeable future. Earnings from the Bahar project are not taxable to the Company until Bahar Energy declares dividends from the surplus funds generated from the ERDPSA. Before Bahar Energy can declare dividends, shareholder loans must be repaid with accumulated interest, which will be returned to the Company non-taxable. With much of the early funds returned from Bahar Energy being non-taxable as loan repayments, the Company's potential taxable dividends horizon is beyond that normally allowed under IFRS for recognition of deferred tax assets. Accordingly, 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 22 – Deferred Income Taxes*.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Change in accounting policy for Bahar Energy

Since January 1, 2013 the Company has applied the equity method of accounting to disclose its joint venture investment in Bahar Energy in accordance with IFRS 11 *Joint Arrangements*. As result of the completion of the Acquisition Transaction on August 9, 2016, Bahar Energy became a wholly-owned subsidiary of the Company. Under the Company's accounting policies, subsidiaries are entities controlled by the Company and therefore fully consolidated from the date on which control is transferred to the Company in accordance with IFRS 10 *Consolidated Financial Statements*.

New standards, interpretations and amendments

The Company has not adopted any new IFRS standards or amendments, which are effective for annual periods on or after January 1, 2016. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. However, the following new standards are being evaluated to determine its potential impact on the Company's consolidated financial statements.

IFRS 9 "Financial Instruments"

In July 2014, the IASB issued IFRS 9 *Financial Instruments* to replace IAS 39 *Financial Instruments: Recognition and Measurement,* which includes a principle-based approach for classification and measurement of financial assets, a single expected loss impairment model and a substantially- reformed approach to hedge accounting. The standard is effective for annual periods beginning on January 1, 2018, with required retrospective application and early adoption permitted.

IFRS 15 "Revenue from Contracts with Customers"

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

IFRS 16 "Leases"

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

6. 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, 2016, the Company had the following outstanding accounts receivable balances:

(US$000's)	December 31, 2016	December 31, 2015
Petroleum	2,089	-
Natural gas	6,488	-
Receivable related party (1)	-	416
Other receivables (2)	199	6
	8,776	422

(1) Represents receivables due from BEOC for amounts charged to these entities before the Acquisition Transaction dated August 9, 2016. The charges are in connection with management, administrative and technical services provided to BEOC under "Affiliate Service Orders" ("**ASO**") and Personnel Secondment Agreements; and charges to BEL in relation to legal, finance and commercial support provided by the Company. For the year ended December 31, 2016, the Company recorded $0.8 million (December 31, 2015 - $0.4 million) in management service fees associated with services provided at cost to BEOC and BEL. As at December 31, 2016, these related party receivables have been eliminated in consolidation.

(2) Represents value added taxes paid in advance on natural gas sales, other employee and miscellaneous receivables. On natural gas sales to SOCAR, BEOC pays the value-added taxes in the month the invoice is issued and gets reimbursement from SOCAR when the invoice is settled.

7. RELATED PARTY TRANSACTIONS

At December 31, 2016, the Company had a balance of $nil (December 31, 2015 - $0.4 million) in accounts receivable due from BEL and BEOC. Balances resulted from charges to BEOC made before the Acquisition Transaction in connection with management, administrative and technical services provided under "Affiliate Service Orders" ("**ASO**") and Personnel Secondment Agreements, as well as charges to BEL for legal, finance and commercial support. As at December 31, 2016 these related party receivables have been eliminated in consolidation.

For the year ended December 31, 2016, the Company recorded $0.8 million (December 31, 2015 $1.6 million) in management service fees associated with services provided at cost to BEL and BEOC before the Acquisition Transaction.

Impairment of Receivable from SOA

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 is obligated to begin funding their 20% share of the Contract Rehabilitation Area starting the next calendar quarter subsequent to the date TPR2 was achieved and BEL is relieved of the obligation to carry SOA's 20% share of petroleum costs under Carry 1 provisions of the ERDPSA. However, SOA has failed to fund any cash calls issued by the operating company subsequent to TPR2 achievement. With TPR2 met by the operating company, BEL has no further contractual obligation to continue the carry of SOA under the ERDPSA. Under the Joint Operating Agreement ("**JOA**"), both BEL and SOA, as contractors to the ERDPSA, are obligated to fund their proportionate share of petroleum costs through cash calls issued by the operating company. Any contractor party failing to fund its participating interest shall be in default under the JOA and the non-defaulting contractor party shall contribute their proportional amount in default, in this case BEL would fund 100% of the SOA defaulted amount. The amounts funded by BEL for the account of SOA under the JOA results in overfunding of its proportionate share of petroleum costs and an underfunding by SOA. The remedy of the contractual default under the JOA by SOA is to make payment of the default amount to the operating company, which in turn has a responsibility to reimburse BEL for the overfunding.

For the year ended December 31, 2016, the Company recorded a $2.9 million related party receivable from SOA in connection with BEL's funding of SOA's share of project expenditures during the period August 9, 2016 through December 31, 2016. On April 19, 2017 BEL and SOCAR signed a protocol in respect of the carry of certain costs and related issues (the "**Protocol**") which addresses the shortfall by SOA in funding its 20% share of project expenditures incurred under the ERDPSA since April 2014. Per the protocol, any funding by BEL of the deficiencies in SOA's cash call payments will be added to the outstanding Carry 1 balance and subsequently reimbursed in accordance with the terms of the ERDPSA through payment of SOA's share of cost petroleum revenues to BEL. Consequently, for the year ended December 31, 2016, the Company recorded an impairment provision of $2.9 million (December 31, 2015 - $nil) for the SOA related party receivable. See *Note 28 – Subsequent Events.*

Compensation of key management personnel

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

US$000's	December 31, 2016	December 31, 2015
Short-term benefits	2,125	1,887
Share-based payments	132	315
	2,257	2,202

8. SHORT TERM LOAN RECEIVABLE FROM RELATED PARTY

Funding the Default Loan Amounts of Baghlan Group Limited

At the completion of the Acquisition Transaction on August 9, 2016, the Company had funded $22.1 million (December 31, 2015 - $22.1 million) to enable GPIC to cover defaulted loan funding obligations of Baghlan, the other shareholder of Bahar Energy. With the funding of the defaulted obligations, GPIC provided protection for the interest of Bahar Energy in the ERDPSA and ensured the Bahar project had adequate working capital to fund the capital program. Baghlan's Default Loans repayment obligation included interest on amounts funded by the Company on their account, an additional charge of 4% per annum as a consequence of the failure to fund drawdown requests and, the reimbursement of transaction costs incurred by the Company to arrange the funding. Also, as a consequence of the funding default, BEL's Shareholders' Agreement required Baghlan to assign to the Company an amount equal in future dividends distributions from BEL.

Waiver of all obligations due from Baghlan was included in the consideration paid by the Company for Baghlan's shares in BEL and consequently all receivable balances were extinguished. *See also Note 3 – Acquisition of Interest in Bahar Energy*. The balance of receivables extinguished as result of the Acquisition Transaction at August 9, 2016 and outstanding as of December 31, 2015 consisted of the following:

(US$000's)	August 9, 2016	December 31, 2015
Default loan funding	22,107	22,107
Transaction costs and fees	1,389	1,265
Billable Interest	5,152	3,512
Default interest (4% per annum)	1,689	-
	30,337	26,884
Fair value of Baghlan's future dividends [1]	8,467	-
	38,804	26,884

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

9. INVENTORIES

At December 31, 2016, the Company had operating inventories of $1.2 million (December 31, 2015 - $nil) consisting of spare parts, consumables, lubricants and fuel. Prior to the Acquisition Transaction, inventories from Bahar Energy were included in the carrying value of the Investment in Joint Venture under the equity method of accounting.

10. INVESTMENT IN JOINT VENTURE

Before the completion of the Acquisition Transaction on August 9, 2016, the Company owned a 33.33% interest in Bahar Energy, a venture that on December 22, 2009 entered into an ERDPSA with SOCAR and SOA in respect to the offshore block known as the Bahar Project, which consists of the Bahar gas field, the Gum Deniz oil field and the Bahar 2 exploration area. Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA. Bahar Energy formed BEOC for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

Continuity of Investment in Joint Venture

US$000's	Investment in Joint Venture
At January 1, 2015	59,105
Funding	667
Share of Income from Joint Venture	2,305
At December 31, 2015	62,077
Share of Income from Joint Venture at Acquisition	992
At August 8, 2016	63,069
Less:	
Value of investment allocated to consideration for Acquisition	(63,069)
At December 31, 2016	-

Bahar Energy, formed for the sole purpose of acquiring the rights to the ERDPSA, is a limited liability entity incorporated in the Jebel Ali Free Zone ("**JAFZA**") in Dubai, United Arab Emirates. As result of the completion of the Acquisition Transaction, Bahar Energy became a wholly-owned subsidiary of the Company. Bahar Energy is governed by its Articles of Association and the Bahar Shareholders Agreement ("**BSA**", "**Joint Arrangement**"). The registered office of Bahar Energy is The Oberoi Centre, Level 15, Al Abraj Street, Business Bay. P.O. Box 36282, Dubai, United Arab Emirates.

Before the Acquisition Transaction, Bahar Energy met the definition of a Joint Venture pursuant to which the Company had contractually agreed to the sharing of control and consequently became joint venturer in the Joint Arrangement. Accordingly, the Company's 33.33% interest in the Bahar Energy was disclosed as a Joint Venture and accounted for using the equity method.

The following tables summarize the financial information of the Joint Venture and reconcile the financial information to the carrying amount of the Company's interest in the Joint Venture through August 8, 2016.

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

Assets	August 8, 2016	December 31, 2015
Current Assets		
Cash and cash equivalents	39	1,218
Trade receivables [(1)]	9,802	8,365
Other receivable	33,264	26,130
Advances for operating activities	945	1,020
Inventories	1,257	1,575
	45,307	38,308
Non-Current Assets		
Advances for capital equipment	-	102
Property and equipment, net	157,819	159,505
	203,126	197,915
Current Liabilities		
Accounts payable and accrued liabilities	7,441	7,804
Payables to related parties	1,272	1,350
Short term notes payable [(2)]	30,337	26,883
	39,050	36,037
Net Assets	164,076	161,878
Company's share of net assets (33.33%)	54,687	53,954
Timing differences in Joint Venture funding	8,382	8,123
Carrying amount of Investment in Joint Venture	63,069	62,077

(1) Balance is net of an allowance for doubtful accounts of $1.3 million related to outstanding receivables due BEOC from a third party operator for services provided under a Facilities Sharing Agreement terminated in the second quarter of 2015.

(2) Balance includes $22.1 million in Default Loan funding provided by GPIC to BEL plus $8.2 million in financing costs and interest. These balances were extinguished as result of the Acquisition Transaction. See also *Note 8 – Short Term Loan Receivable from Related Party*.

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

	Period ended August 8, 2016 [1]	Year ended December 31, 2015
Revenues		
Petroleum and natural gas	19,085	38,173
Transportation and storage fees [2]	-	1,138
	19,085	39,311
Expenses		
Operating & administrative	11,449	24,630
Depreciation and amortization	4,662	7,766
	16,111	32,396
Income from operating activities	2,974	6,915
Net Income	2,974	6,915
Company's Share of Income of Joint Venture [3]	992	2,305

[1] Revenues and expenses for the period ended August 8, 2016 reflect operating results prior to BEL becoming a wholly-owned subsidiary of the Company on August 9, 2016, after which BEL revenues and expenses were consolidated in the Company's Statement of Comprehensive Income and Loss.
[2] During second quarter 2015, the facilities sharing agreement covering the transportation and storage services provided by BEOC to a third party operator was terminated.
[3] The Company's 33.33% interest in BEL was disclosed as a Joint Venture and accounted for using the equity method of accounting prior to the Acquisition on August 9, 2016.

11. PROPERTY AND EQUIPMENT

(US$000's)	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2015	-	335	335
Acquisitions – August 9, 2016	189,969	-	189,969
Additions	1,133	11	1,144
As at December 31, 2016	191,102	346	191,448
Accumulated DD&A			
As at December 31, 2015	-	334	334
Additions	4,019	2	4,021
As at December 31, 2016	4,019	336	4,355
Net property and equipment			
As at December 31, 2015	-	1	1
As at December 31, 2016	187,083	10	187,093

At December 31, 2016, the Company has a balance of $1.2 million in capital inventories (December 31, 2015 - $nil).

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.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	December 31, 2016	December 31, 2015
Trade accounts payable [1]	11,660	192
Accrued liabilities	2,032	6,731
	13,692	6,923

[1] Trade accounts payable mainly consists of trade payables from BEOC.

13. EXTINGUISHMENT OF SHORT TERM LOAN

On November 25, 2013 the Company secured a $25 million loan facility ("**Loan**") from Vitol Energy (Bermuda) Ltd. ("**Vitol**",or "**Lender**"). Pursuant to the terms of the Loan Agreement among the Lender, the Company, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors ("**Guarantors**"), the Company was entitled to draw up to an aggregate of $25 million in four tranches based upon the achievement of certain operational milestones. The Loan incurred a cash structuring fee of 2.5% payable on each tranche advanced in accordance with the Loan Agreement, interest a rates between 15% and 20% per annum payable quarterly and was set to mature on December 31, 2015. The Loan was secured by first priority liens on the existing and future assets of the Company and the Guarantors. Also, the loan was measured at amortized cost and accreted up the principal balance at maturity using an effective interest rate of 27.4%.

On March 4, 2016 the Company signed the Fifth Amending Agreement to the Loan Agreement and increased the total Loan commitment to $34.0 million which principal and respective accrued and unpaid interest were set to mature on May 16, 2016. The Fifth Amending Agreement provided for, among other things: (i) additional funding in the aggregate amount of $7.0 million to satisfy the purchase price in respect of the Acquisition and for working capital purposes; and (ii) an extension of the maturity date under the Loan Agreement from March 15, 2016 to May 16, 2016 in order to facilitate the completion of the Restructuring Transaction. The additional $7.0 million in funding accrued interest at a rate of 15% per annum. All unpaid interest accrued as of December 31, 2015 regardless of the tranche with which it was associated, accrued interest at the rate of 17.04% until the maturity date of May 16, 2016. Subsequent to May 16, 2016, the Company signed successive amending agreements to further extend the loan maturity date until August 31, 2016.

On August 9, 2016 the Company executed the Ninth Amending Agreement to the Loan Agreement, which became effective August 19, 2016, in order to restructure the balances due under the current short term loan into a new loan term loan (the "**Restructure Amount**") with maturity date of March 31, 2018. The Restructure Amount will accrue interest at the reduced rate of 12% per annum.

The Ninth Amending Agreement to the Loan Agreement reduced the interest rate per annum and extended the maturity of the loan. In addition, the measurement of the cash flows associated with the Restructure Amount resulted in an effective interest of 12%, a rate significantly lower than the rate determined for the original loan. These factors represent a substantial modification of the original terms of the loan therefore resulting in the extinguishment of the existing liability and the recognition of a new liability. Both the reduction in the interest per annum and the extension of maturity constitute concessions granted by the Lender for which the Company has paid an additional consideration to the Lender by issuing common shares.

The carrying value of Short Term Loan extinguished at August 19, 2016 consisted of the following:

(US$000's)	August 19, 2016	December 31, 2015
Loan advances	34,000	27,000
Accrued interest [1]	7,148	3,405
Short term loan and interest extinguished	41,148	30,405

[1] The Company has previously disclosed short term loan accrued interest as part of Accounts payable and accrued liabilities in the Consolidated Statement of Financial Position. See also *Note 12 - Accounts Payable and Accrued Liabilities*.

In consideration for agreeing to the loan restructuring terms, on September 9, 2016, the Company issued: (i) to Vitol, 75,404,975 Common Shares in the capital of the Company and 75,404,975 Warrants; and (ii) to Ingalls & Snyder LLC (**"I&S"**), a lender under the Vitol loan, 10,574,942 Common Shares and 10,574,942 Warrants. The Common Shares were subject to resale restrictions expiring four months from the date of issuance. See also *Note 16 – Warrants and Note 17 – Shareholder's Equity*.

The Company issued the Common Shares at a price of CAD$0.21 (USD$0.16) per common share. For the year ended December 31, 2016 the Company recorded Other Financing Costs of $13.9 million (December 31, 2015 - $nil) for the value of Common Shares issued as consideration for the restructuring.

14. LONG TERM LOANS

On August 9, 2016 the Company executed the Ninth Amending Agreement to the Loan Agreement, which became effective August 19, 2016, in order to restructure the balances due under the current short term loan into a new long term loan with maturity date of March 31, 2018. The loan is secured by first priority liens on the existing and future assets of the Company and the Guarantors.

Restructured Vitol Long Term Loan

Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the Company restructured the debt into a new loan with a principal balance of $41.1 million, maturity date of March 31, 2018 and interest accruing at the rate of 12% per annum. The new loan carries no additional fees or transaction costs and is measured at amortized cost using an effective interest rate of 12%.

Long Term Loan Related Party

As result of the common shares issued to Vitol in consideration for loan restructuring, Vitol became a controlling insider of the Company with ownership of 49.1% of the issued and outstanding common shares thereby making Vitol a related party. The carrying value of the related party long term loan with Vitol is as follows:

(US$000's)	December 31, 2016
Loan related party	41,148
Accrued Interest	1,821
Long term loan related party and interest	42,969

Additional Loan Agreements

In September 2016 the Company secured additional advances from a consortium of lenders ("**Consortium of Lenders**") in the amount of $3.0 million (the "**Additional Loan Agreements**"). The Additional Loan Agreements are subject to the same terms as the restructured Long Term Loan with Vitol having the same maturity date of March 31, 2018 and accruing interest at the same rate of 12% per annum also due at maturity date. A structuring fee related to certain lenders in the consortium of $61 thousand was also paid. Pursuant to the terms of the Additional Loan Agreements, the lenders received 1.2 Common Shares for each USD$1.00 of principal loaned to the Company for an aggregate of 3,630,000 common shares issued at a price of CAD$0.21 (USD$0.16) per common share for an aggregate value of $585 thousand to be accreted over the life of the loan. The Additional Loan Agreements are measured at amortized cost and accreted up the principal balance at maturity using an effective interest rate of 27.7%. The Additional Loan Agreements carrying value is as follows:

(US$000's)	December 31, 2016
Additional loans	3,025
Accrued interest	108
Unamortized share consideration	(485)
Carrying value of additional loans	2,648

Five insiders of the Company provided $550 thousand of the funding under the Additional Loan Agreements. As at December 31, 2016, the carrying value of $480 thousand from new loans funded by insiders was disclosed as part of the balance of Long Term Loans Related Party in the Consolidated Statement of Financial Position. For the year ended December 31, 2016 the Company recorded $61 thousand in structuring fees (December 31, 2015 - $nil) which are amortized over the life of the Additional Loan Agreements.

Settlement of Long Term Loan-2

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

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

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

(US$000's)	September 9, 2016	December 31, 2015
Loan-2 advances	20,835	20,835
Accrued interest	5,155	3,434
Loan-2 principal and interest at settlement date	25,990	24,269
Value of common shares issued in settlement	(1,853)	-
Gain on settlement of Loan-2	24,137	-

For the year ended December 31, 2016, the Company recorded expenses in the amount of $1.1 million (December 31, 2015 - $nil) for the success fee paid in cash and common shares to an agent for negotiating the terms of the Definitive Agreement and recorded a gain of $24.1 million (December 31, 2015 - $nil) as result of the settlement of Loan-2.

15. SETTLEMENT OF CONVERTIBLE DEBENTURES

On May 30, 2012 the Company issued CAD$23.7 million of convertible unsecured subordinated Debentures for equivalent proceeds of $22.9 million. The Debentures paid a 9.0% annual interest rate from the date of issue with interest payable semi-annually in arrears on May 31 and November 30 of each year starting on November 30, 2012; and were to mature and be repayable on May 31, 2017 (the "**Maturity Date**"). Each CAD$1,000 Debenture principal amount could be converted, at the option of the holder, at any time prior to the close of business on the earlier of the business day immediately preceding the Maturity Date and, if applicable, the last business day immediately preceding the date fixed for redemption, into 117 common shares of the Company. The redemption ratio resulted from a conversion price (the "**Conversion Price**") of CAD$8.55 per common share of the Company.

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

On June 30, 2015 the Company secured temporary relief from its May 31, 2015 $0.9 million interest payment as stipulated by the Indenture governing the Debentures by way of a waiver from the holders of more than 50% of the principal amount of the Debentures. Pursuant to the waiver, the May 31, 2015 interest payment was deferred until the earlier of: (i) December 30, 2015; and (ii) 15 business days after the receipt by GPIC of payment from Bahar Energy Limited of at least $9.0 million towards the balance of Default Loans due.

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

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

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

(US$000's)	August 26, 2016	December 31, 2015
Value of Debentures	17,124	15,132
Accrued interest	3,027	1,718
Unamortized transaction costs	239	339
Unaccreted costs	962	1,671
Value of Debentures	21,352	18,860
Value of common shares issued at conversion	(7,680)	-
Gain on settlement of Debentures	13,672	-

For the year ended December 31, 2016, the Company recorded a gain of $13.7 million (December 31, 2015 - $nil) in connection with the settlement of the Debenture Conversion.

16. WARRANTS

In connection with the completion of the Restructuring Transaction, the Company issued 85,979,917 Common Share purchase warrants to the lenders under the Vitol loan.

The Warrants have the following terms: (i) each Warrant shall entitle the holder thereof to purchase a Common Share at an exercise price of $0.375 per Common Share; (ii) Warrants will only vest in the event of a dilutive issuance of securities by Greenfields and only as to such number of Warrants as are necessary to maintain each of the holder's equity position in Greenfields; (iii) all rights to unvested Warrants will terminate upon the earlier of: (A) the maturity date under the Loan Agreement, being March 31, 2018; and (B) the date on which all amounts owing under the loan with Vitol are repaid in full; and (iv) all vested Warrants may be exercised at any time, and from time to time, for a period of five years from the date of their issuance.

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

The Company estimates approximately 5% or no more than approximately 4.4 million Warrants will vest during the life of these instruments and has valued each Warrant likely to vest at CAD$0.10 (USD$0.08) using a binomial model with the following assumptions:

	December 31, 2016
Market price per common share – CAD$	0.29
Risk-free interest rate range	0.73%
Expected life – years	5
Expected volatility	82%
Estimate of common shares issuable at exercise	4,366,971

For the year ended December 31, 2016, the Company recorded an expense for the fair value of warrants expected to vest of $546 thousand (December 31, 2015 - $nil) and accrued a liability which is fair valued at each reporting date with adjustments recorded through profit and loss.

17. SHAREHOLDER'S EQUITY

Authorized Share Capital [(1)]

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

(1) An increase in the authorized share capital of the Company was approved by the shareholders on August 18, 2016.

Common Shares

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

Preferred Shares

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

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

Common shares and paid in capital continuity schedule:

Outstanding common shares *US$000's, except for share numbers*	Number of Common Shares	Amount
As at December 31, 2015	22,105,438	76,957
Issued on debt restructuring	85,979,917	13,854
Issued on conversion of Debentures	33,143,825	7,679
Issued on settlement of Loan-2	12,000,000	1,934
Issued on Additional Loans	3,630,000	585
As at December 31, 2016	156,859,180	101,009

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

	December 31, 2016	December 31, 2015
Issued	156,973,552	22,219,810
Shares acquired by the Company	(125,405)	(125,405)
Shares re-issued after acquisition	11,033	11,033
Total Outstanding	156,859,180	22,105,438

Per Share Information

Per share income (loss) *(US$000's, except for per share amounts)*	Year Ended December 31, 2016	Year Ended December 31, 2015
Weighted average number of common shares outstanding	65,464,178	21,982,877
Income (loss) for the year	99,193	(7,524)
Basic and diluted income (loss) per share	$1.52	($0.34)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period that the equity instruments were outstanding. For the year ended December 31, 2016, 1,120,000 outstanding share options and 85,979,917 outstanding warrants (December 31, 2015 – 1,187,083 share options) were excluded from calculating dilutive earnings per share as they were anti-dilutive.

Issued on debt restructuring

On September 9, 2016 the Company issued 75,404,975 Common Shares to Vitol and 10,574,942 Common Shares to Ingalls & Snyder LLC at a price of CAD$0.21 (USD$0.16) per common share.

Issued on conversion of Debentures

On August 26, 2016 the Company issued 33,143,825 Common Shares at a price of CAD$0.30 (USD$0.23) per common share for the conversion of Debentures.

Issued on settlement of Loan-2

On September 9, 2016 the Company issued 11,500,000 Common Shares to Heaney for settlement of Loan-2 under the Definitive Agreement and 500,000 Common Shares to an agent, both issued at a price of CAD$0.21 (USD$0.16) per common share.

Issued on Additional Loans

On September 9, 2016 the Company issued 3,630,000 Common Shares to a Consortium of Lenders at a price of CAD$0.21 (USD$0.16) per common share.

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

18. SHARE BASED PAYMENTS

	Year Ended December 31,	
US$000's	2016	2015
Share options	42	203
Share awards	-	180
Total share settled	42	383
Contingent share-based bonus [(1)]	5	103
Restricted cash bonus awards – cash settled [(1)]	99	75
Total share-based payments	146	561

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

The share-based payments recorded by the Company are associated with share options, restricted share grants and share-based bonuses. Share-based payment expenses for the year ended December 31, 2016 were $146 thousand (December 31, 2015 - $561 thousand).

Share Options

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

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

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

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

Risk-free interest rate range	0.5% - 2%
Expected life range	1.1 - 5.0 years
Expected volatility range	40% - 86%
Weighted average forfeiture rate	1.7%
Weighted average fair value	$1.81

Continuity of Stock Options

	December 31, 2016		December 31, 2015	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of year	1,187,083	2.27	1,796,250	5.88
Granted	400,000	0.24	400,000	0.35
Surrendered	-	-	(720,000)	6.79
Expired	(400,000)	0.35	-	-
Forfeited	(67,083)	3.10	(289,167)	10.77
Outstanding, end of year	1,120,000	2.09	1,187,083	2.27
Exercisable, end of year	791,250	3.26	757,083	2.30

On July 8, 2015 the Company granted options to acquire 400,000 common shares of the Company pursuant to its stock option plan. The options are exercisable at a Canadian dollar price of $0.35 per Common Share and will expire 15 months after July 8, 2015. A total of 252,500 options vested at grant date while the remaining 147,500 options were set to vest nine months after grant date. On October 6, 2016, 400,000 share options that had been granted on July 4, 2015 expired.

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

On October 13, 2016 the Company granted options to acquire 400,000 common shares of the Company pursuant to its stock option plan to two contractors. The options are exercisable at a price of CAD$0.24 per share, the closing price on October 12, 2016, and vest 25% on the date of the grant and 25% on each of the first, second and third anniversaries of the grant date. The options will expire 5 years from the grant date. For the year ended December 31, 2016 the Company recorded share option expenses of $9 thousand (December 31, 2015 - $nil) in relation to this grant.

The exercise prices of the outstanding share options ranges from CAD$0.24 to CAD$6.50 per common share with all options expiring on various dates between years 2018 and 2021. The exercisable options as at December 31, 2016 have remaining contractual lives up to 4.8 years.

For the year ended December 31, 2016, the Company recorded share options expense of $42 thousand (December 31, 2015 - $203 thousand). The share options expense is offset to the Company's share-based payment reserve.

On January 12, 2015 the Company awarded the right to 500,490 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Company; or such earlier vesting date as determined by the board. Also at the option of the board, the contingent bonus may be settled by the Company in cash at vesting date, with the value of common share determined by the closing price of the Company's common shares at such vesting date. These rights were valued at the price of CAD$0.28 (USD$0.21) for a total share award expense of $103 thousand and accrued as contingent liabilities at December 31, 2015. 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, 2016 was $108 thousand (December 31, 2015 - $103 thousand).

Restricted Cash Bonus Program

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

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

On January 20, 2015 the Company awarded 107,866 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 94,533 units vesting on January 1, 2015 (the "**Original Vesting Date**"). The deferral bonus units originally had a vesting date of January 1, 2016 (the "**Deferral Vesting Date**") and would be settled at the share price of the Company's common share on either the Original Vesting Date or the Deferral Vesting Date, whichever share price was higher. The Deferral vesting date for both awards has been further deferred until the first to occur of the following: January 1, 2017; the date of a change of control of the company; or such earlier Deferred Vesting Date as determined by the board. The estimated FVBCB liability at December 31, 2016 was $184 thousand (December 31, 2015 - $184 thousand).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at December 31, 2016 was $nil (December 31, 2015 - $nil).

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

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

Grant Date	FVBCB Units	ABCB Units	ABCB Units			
			Grant Price $CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4, 2012	38,334	122,500	4.80	122,500	June 4, 2017	0.4
Sept. 4, 2012	3,333	10,000	5.65	10,000	June 4, 2017	0.7
Oct. 5, 2012	6,667	30,000	5.30	30,000	Oct. 5, 2017	0.8
Dec. 1, 2012	1,200	3,600	4.80	3,600	Dec. 1, 2017	0.9
Dec. 24, 2012	90,000	160,000	3.50	160,000	Dec. 24, 2018	2.0
Jan.1, 2015	107,866	-	-	-	-	-
	247,400	326,100		326,100		

For the year ended December 31, 2016, the Company recorded restricted cash bonus expense of $nil (December 31, 2015 – $75 thousand).

Fair Value Director Cash Bonus Program

On October 13, 2016 the Company established a Fair Value Director Cash Bonus Program ("**FVDCB**") for the board of directors consisting of cash settled incentives awarded in bonus units. Subsequently, the Company awarded 1,250,000 FVDCB units with the cash settlement value of a bonus unit equal to the average Canadian dollar denominated value of a common share for the five trading days prior to filing a call notice. The call notice is used to redeem a vested unit. However, in the case of a monetization event (as defined below), the bonus unit will equal the same amount a shareholder receives for a common share. A monetization event means: (1) the acquisition by a third party of all or substantially all of the shares of the Company; (2) an amalgamation, arrangement, merger or other consolidation of the Company with another company; (3) a liquidation, dissolution or winding-up of the Company; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Company. Notwithstanding the provisions of the FVDCB Program, payment of vested units will be deferred and will only occur after the director ceases to be a director of Greenfields.

The FVDCB program does not grant any entitlement to common shares or other equity interest in the Company. The FVDCB units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. In the event of a change of control of the Company, involuntary removal from the board, death or a monetization event, the bonus units will immediately vest.

For the year ended December 31, 2016, the Company recorded FVDCB expense of $99 thousand (December 31, 2015 – $nil) and a liability that will be fair valued at each reporting date with adjustments recorded through profit and loss.

Key Employee Contingent Incentive Plan Award

On October 13, 2016 the Company established a Key Employee Contingent Incentive Plan Award ("**KECIP**"), for the employees of the Company and certain employees of BEOC, consisting of cash settled incentives awarded in bonus units. Subsequently, the Company awarded 11,025,000 KECIP units with the cash settlement value of a bonus unit equal to the same amount a shareholder receives for a common share if a monetization event occurs. A monetization event means: (1) the acquisition by a third party of all or substantially all of 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. No expense has been recorded for the issuance of the KECIP units as of December 31, 2016, as the related cash settlement value can only be determined when a monetization event takes place.

Share-based payments reserve

US$000's	Amount
Balance December 31, 2015	5,466
Stock options share-based payments	42
Balance December 31, 2016	5,508

19. INTEREST INCOME AND INTEREST EXPENSE

	Year Ended December 31,	
US$000's	2016	2015
Interest income (1)	3,420	3,203
Interest expense – short term loan (2)	(3,743)	(7,067)
Interest expense – convertible debentures (3)	(3,310)	(2,930)
Interest expense – long term loan (4)	(3,750)	(2,460)
	(7,383)	(9,254)

(1) Interest income charged to Bahar Energy in connection with Default Loans. The accumulated interest on Default was included as consideration paid for the Acquisition Transaction on August 9, 2016. Therefore, the related account receivable balance was also extinguished. See *Note 8 - Short Term Loan Receivable from Related Party.*

(2) Interest expense on short term loan includes interest and amortization of transaction costs. The accumulated interest on short term loan was included as part of the Restructuring Transaction dated August 19, 2016. Therefore, the related interest payable balance was also extinguished. See *Note 13 – Extinguishment of Short Term Loan.*

(3) Interest expense on convertible debentures included accretion, coupon interest, amortization of transaction costs, and interest on defaulted payments. The accumulated interest on convertible debentures was included as part of the debentures conversion dated August 26, 2016. Therefore, the related interest payable balance was also extinguished. See *Note 15 – Settlement of Convertible Debentures*.

(4) Includes interest expense on Long Term Loan-2 and interest expenses on long term loans post restructuring. The accumulated interest payable on Loan-2 was included as part of the loan settlement transaction dated September 9, 2016, therefore the related account payable balance was extinguished. See *Note 14 – Settlement of Loan Term Loan-2*. For the year ended December 31, 2016, the Company recorded interest and accretion expense of $2.0 million in relation to the Restructured Vitol Loan Term Loan and Additional Loan Agreements.

20. 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, 2016			December 31, 2015		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	11,781	467	12,248	-	27,445	27,445
Non-current assets	-	-	-	62,077	-	62,077
Capital assets	187,084	9	187,093	-	1	1
Total assets	198,865	476	199,341	62,077	27,446	89,523
Current liabilities	(11,438)	(2,254)	(13,692)	-	(33,923)	(33,923)
Non-current liabilities	-	(46,163)	(46,163)	-	(39,401)	(39,401)
Total liabilities	(11,438)	(48,417)	(59,855)	-	(73,324)	(73,324)

Capital Expenditures

	Year ended					
(US$000's)	December 31, 2016			December 31, 2015		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Capital Expenditures	1,133	11	1,444	-	-	-

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Consolidated Statements of Comprehensive Income (Loss) by Segment

	Year ended					
(US$000's)	December 31, 2016			December 31, 2015		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Petroleum and natural gas [1]	14,422	-	14,422	-	-	-
Management services fees	-	809	809	-	1,555	1,555
	14,422	809	15,231	-	1,155	1,155
Expenses [1]						
Operating	9,341	-	9,341	-	-	-
Impairment	2,875	-	2,875	-	-	-
Transportation	52	-	52	-	-	-
Administrative	106	5,446	5,552	-	5,048	5,048
Depreciation and amortization	4,019	2	4,021	-	34	34
	16,393	5,448	21,841	-	5,082	5,082
Income(Loss) from operating activities	(1,971)	(4,639)	(6,610)	-	(3,527)	(3,527)
Income from fair value of future dividends	-	8,467	8,467	-	-	-
Gain on acquisition	-	81,524	81,524	-	-	-
Gain on settlement of LT Loan	-	24,137	24,137	-	-	-
Gain on settlement of debentures	-	13,672	13,672	-	-	-
Other financing costs	-	(13,854)	(13,854)	-	-	-
Fair value of warrants issued		(546)	(546)	-	-	-
Income on investment in Joint Venture [1]	992	-	992	2,305	-	2,305
Interest income	-	3,420	3,420	-	3,203	3,203
Interest expense	-	(10,803)	(10,803)	-	(12,457)	(12,457)
Foreign exchange gain(loss)		(1,206)	(1,206)	-	2,925	2,925
Change in fair value of derivative liability	-	-	-	-	27	27
Net income(loss)	(979)	100,172	99,193	2,305	(9,829)	(7,524)

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

Major customers

During the year ended December 31, 2016, BEL's petroleum and natural gas production entitlement volumes were sold to a single customer, SOCAR, the State Oil Company of Azerbaijan. Prior to the Acquisition on August 9, 2016, the Company's 33.33% share of BEL's petroleum and natural gas entitlement revenues was recorded as Income or loss in Investment in Joint Venture in the Consolidated Statement of Comprehensive Income or Loss. From the Acquisition date through December 31, 2016, the Company recorded BEL's petroleum and natural gas entitlement revenues in the amount of $14.4 million.

For the year ended December 31, 2016, the Company recorded $0.8 million (December 31, 2015 - $1.6 million, respectively) in management service fees for management, administrative and technical support services provided at cost to BEL and BEOC before the Acquisition Transaction. See also *Note 6 – Accounts Receivable.*

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,	
US$000's	2016	2015
Trade receivables	1,635	-
Receivables from related parties	-	1,347
Advances for operating activities	144	-
Other receivable	(2,998)	14
Prepaid expenses and deposits	(31)	455
Inventories	18	-
Accounts payable and accrued liabilities	(760)	(20)
	(1,992)	1,796

22. DEFERRED INCOME TAXES

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

	Year Ended December 31,	
US$000's	2016	2015
Comprehensive income (loss) before income taxes	99,193	(7,524)
U.S. federal corporate income tax rate	35%	35%
Expected income tax (recovery) expense computed at statutory rates	34,717	(2,633)
Add (deduct) the tax effect of:		
Non-taxable / deductible items	346	(803)
Acquisition transaction	(32,694)	-
Debt Restructuring	(7,827)	-
Deferred income tax (recovery) expense per calculation	(5,458)	(3,436)
Derecognition of deferred tax asset for current year	5,458	3,436
Deferred income tax (recovery) expense per statements	-	-
Current year deferred income taxes consist of:		
Current tax (recovery)	(5,243)	(3,705)
Deferred tax (recovery)	(215)	269
Deferred income tax (recovery) before tax asset derecognition	(5,458)	(3,436)
Deferred tax asset not brought to account	5,458	3,436
Deferred income tax expense (recovery)	-	-

Deferred Income Tax Asset

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

Continuity of net deferred income tax asset (liability)

US$000's	Recognized in profit or loss	Recognized in equity	Total
As at December 31, 2015	3,436	(60)	3,376
Derecognition of deferred tax asset	(3,436)	60	(3,376)
As at December 31, 2015 after derecognition	-	-	-
Current loss carry-forwards	(5,458)	11	(5,447)
As at December 31, 2016	(5,458)	11	(5,447)
Derecognition of deferred tax asset	5,458	(11)	5,447
As at December 31, 2016 after derecognition	-	-	-

At December 31, 2016, the Company has cumulative loss carry-forward of approximately $61.6 million that will expire between the years 2030 and 2036. The Company expects to be able to fully utilize these losses and the associated deferred tax asset noted above, but has elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured.

23. EXPENSES BY NATURE

US$000's	Year ended December 31,	
	2016	2015
ADMINISTRATIVE		
Employee wages and benefits	2,273	2,073
Share-based payments	146	561
Professional service costs	2,656	850
Office, travel and other	477	1,564
Total expenses by nature	5,552	5,048

24. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2016:

US$000's	**2017** (1)	**2018** (1)	**Thereafter**
Operating leases (1)	47	-	-
Long term loans – interest	6,000	2,537	-
Long term loans - principal	-	44,173	-
	6,047	46,710	-

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

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. With Bahar Energy holding an 80% controlling interest in the ERDPSA and now being a wholly-owned subsidiary of the Company, the Company maintains control of the approval of the annual WP&B.

25. 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 and arises principally from the Company's receivables from subsidiaries and affiliates for services performed under certain administrative services agreements and from advances made under certain joint venture agreements.

As at December 31, 2016, the Company's accounts receivable primarily consists of receivables from petroleum and natural gas sales to SOCAR, with collections generally occurring in 30 to 90 days. The Company historically has not experienced any collection issues with its accounts receivable and all of the balances due are considered by management to be collectable at December 31, 2016.

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 the statement of financial position date is as follows:

Credit Risk *US$000's*	December 31, 2016 (1)	December 31, 2015
Cash and cash equivalents	1,361	100
Trade receivables	8,577	-
Receivables from related parties	-	416
Short term loans receivable from related parties	-	26,884
Other receivable	199	-
Advances for operating activities	802	6
	10,939	27,406

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

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual conditions without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation. However, the Company's current cash balance of $1.4 million does not allow for meeting its ongoing obligations, thereby requiring additional funding to continue providing working capital for the Bahar project and corporate purposes. The timing or likelihood of such funding is uncertain. See also *Note 2 – Basis of Presentation and Going Concern.*

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

The Company's financial liabilities as at December 31, 2016 and December 31, 2015 arose primarily from corporate obligations and payables from BEOC. Payment terms on accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest.

The following table summarizes the remaining contractual maturities of the Company's financial liabilities at December 31, 2016:

Liquidity Risk	December 31, 2016 (1)				December 31, 2015
US$000's	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities (2)	13,692	-	-	13,692	1,799
Short term loan – interest	-	-	-	-	4,651
Short term loan	-	-	-	-	27,000
Long term loans – interest (3)	6,000	2,537	-	8,537	9,681
Long term loans - principal (3)	-	44,173	-	44,173	20,835
Debentures - interest	-	-	-	-	3,903
Debentures	-	-	-	-	17,143
	19,692	46,710	-	66,402	85,012

(1) Reflects the Company's contractual obligations after the effect of both Acquisition and Restructuring Transactions as described in *Note 1 – Incorporation and Nature of Operations*.

(2) For the year ended December 31, 2016, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC whereas the year ended December 31, 2015 only represents corporate obligations.

(3) Represents principal and accrued interest on long term loans with original maturity date of March 31, 2018. See *Note 14 - Long Term Loans.*

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars. As at December 31, 2016 and 2015, the Company had no forward exchange contracts in place.

d) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as 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 the Amended GSA on March 3, 2017, setting a natural gas price of $2.69/mcf for the next five years. Through an oil sales agreement with SOCAR, the Company expects to continue receiving net oil prices that have historically realized approximately 94% of the Brent crude benchmark less transportation costs.

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

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company mitigates its exposure to interest rate changes by holding fixed rate debt. As at December 31, 2016 the sensitivity in net earnings for each one percent change in interest rates is not significant.

Fair value of financial instruments

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

		December 31, 2016 [(a)]		December 31, 2015	
US$000's	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at FVTPL					
Cash and cash equivalents	1	1,361	1,361	100	100
Restricted Cash	-			-	-
Loans and receivables					
Trade Receivables		8,577	8,577	-	-
Receivables from related party [(b)]	-	-	-	416	416
Short term loans receivable related party		-	-	26,884	26,884
Other receivables	-	199	199	6	6
Advances for Operating activities		802	802	-	-
Other financial liabilities					
Accts payable and accrued liabilities [(c)]	-	13,300	13,300	6,635	6,635
Short term loan	-	-	-	27,000	27,000
Long term loans		45,617	45,617	24,269	24,269
Convertible debentures	-	-	-	15,132	15,132
Liabilities at FVTPL					
Share based bonus	2	392	392	288	288
Warrants	2	546	546	-	-

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

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

(c) For the year ended December 31, 2016, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC whereas the year ended December 31, 2015 only represents corporate obligations.

Fair Value Hierarchy
Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2 – Fair value measurement is based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.
Level 3 – Fair value measurement using inputs for the asset or liability that are not based on observable market data.

26. CAPITAL STRUCTURE AND MANAGEMENT

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

Composition of the Company's capital structure *US$000's*	December 31, 2016 [1]	December 31, 2015
Working Capital	(1,444)	(6,478)
Long term loans, convertible debt and shareholders' equity	185,103	55,600
Ratios of working capital to long term loan, convertible debt and shareholders' equity	(1%)	(12%)

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

27. SUBSEQUENT EVENTS

Share Options Granted

On January 1, 2017 the Company granted options to acquire 650,000 common shares of the Company pursuant to its stock option plan, 450,000 of which were granted to officers of the Company. The options are exercisable at a price of CAD$0.29 per common share and will expire 5 years from the grant date. The options will vest 1/2 upon January 1, 2018 and 1/2 upon January 1, 2019.

Deferral of Prepayment Obligation with Senior Lender

On March 16, 2017 the Company entered into the Tenth Amending Agreement to the Loan Agreement with its senior lender, Vitol Energy (Bermuda) Ltd., to facilitate a deferral of the prepayment obligation in the amount of $500,000 due on March 31, 2017, until the earlier of the Maturity Date or voluntary prepayment.

Amended Gas Sales Agreement

On March 3, 2017 BEOC, the operating company for the Bahar Project, signed an amendment to the gas sales agreement (the "**Amended GSA**") for the sale of non-associated natural gas produced under the

ERDPSA to SOCAR.

On October 1, 2015, the original gas sales agreement (the "**Original GSA**") for the sale of non-associated natural gas from the Bahar Gas Field expired. Natural gas sales from the Bahar Gas Field continued on a month to month basis on the original terms set forth in the Original GSA while a revised gas sales agreement was negotiated with SOCAR. With the continued difficult economic conditions in Azerbaijan, due to low oil prices, SOCAR has placed pressure on all production sharing agreement holders to lower prices for natural gas sold to SOCAR for domestic consumption. The Amended GSA, effective from April 1, 2017, extends the term of the arrangement by 5 years and establishes a fixed natural gas price of $95/mcm ($2.69/mcf), which is reduced from the natural gas price of $140/mcm ($3.96/mcf) established by the Original GSA.

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

Signing of a Protocol on the Carry of SOA

On April 19, 2017 BEL and SOCAR signed a protocol in respect of the carry of certain costs and related issues. The Protocol between BEL and SOCAR addresses the shortfall by SOA in its funding of its 20% share of project expenditures incurred under the ERDPSA since April 2014. As of March 31, 2017, this funding shortfall and the Carry 1 amounts owed to BEL pursuant to the ERDPSA totalled approximately $40 million.

As provided in the ERDPSA, these amounts will be repaid to BEL from SOA's share of cost recovery. In addition, from April 19, 2017, the effective date of the Protocol, all funds generated by the sale of petroleum produced from the contract rehabilitation area which are allocated to SOA for profit petroleum and to SOCAR as compensatory petroleum (the "**Protocol Funds**") will now be placed in a separate fund. The Protocol Funds will be used to fund SOA's monthly cash call obligation. In the event the Protocol Funds are insufficient to cover the payment of SOA's cash calls, BEL will fund such shortfall. Any funding by BEL of the deficiencies in SOA's cash call payments will be added to the outstanding Carry 1 balance and subsequently reimbursed in accordance with the terms of the ERDPSA through payment of SOA's share of cost recovery revenues to BEL. The Protocol has a three-year term.