GREENFIELDS PETROLEUM CORPORATION

The International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors' Report
For the Year Ended December 31, 2020

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GREENFIELDS PETROLEUM CORPORATION

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2020

The following statement is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors concerning to the consolidated financial statements of Greenfields Petroleum Corporation (the "Company"), and its subsidiaries (together referred to as the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of December 31, 2020, the results of its operations, changes in equity and cash flows in accordance with International Financial Reporting Standards ("IFRS") for the year then ended.

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRSs;
- Maintaining statutory accounting records in compliance with applicable legislation and accounting standards;
- Taking such steps that are reasonably available to them to safeguard the assets of the Group; Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended December 31, 2020 were authorized for issue on June 21, 2021 by the management of the Group.

On behalf of the Management:

John Harkins
President and Chief Executive Officer

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Greenfields Petroleum Corporation:

Opinion

We have audited the consolidated financial statements of Greenfields Petroleum Corporation (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020. The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Related Party Transactions and Balances

Without qualifying our opinion, we draw attention to Note 19 to the accompanying consolidated financial statements. The Group has significant balances with related parties. Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Our opinion is not qualified in respect of this matter.

Emphasis of Matter – Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw your attention to Note 4 to the consolidated financial statements. The Group had negative equity balances as at December 31, 2020 and 2019 and its current liabilities exceeded its current assets by USD 74,514 thousand and USD 67,937 thousand, respectively, indicating the existence of material uncertainty which may cause significant doubt about the Group's ability to continue as a going concern. However, the management believes that the shareholders of the Group will continuously support the Group to sustain the operations along with the current plans and budget and will provide the Group with the financing and other support needed to make it possible to continue as a going concern in the foreseeable future. While making the statement the management considered the positive operational cash flows of the Group and the fact that the significant part of liabilities of the Group were due to shareholders. Accordingly, the management prepared these consolidated financial statements on a going concern basis.

Other Matter - Comparative Information

The consolidated financial statements of the Group as at and for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on July 28, 2020.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2020, we have audited the adjustments described in Note 5 that were applied to restate and reclassify the comparative information presented as at and for the year ended December 31, 2019. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2019 other than with respect to the adjustments described in Note 5 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective consolidated financial statements taken as a whole. However, in our opinion, the adjustments described in Note 5 are appropriate and have been properly applied.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Baker Tilly Azerbaijan

June 21, 2021
Baku, the Republic of Azerbaijan

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020
(In thousand United States dollars)

	Notes	December 31, 2020	December 31, 2019 (Reclassified/ restated)
ASSETS			
Current assets:			
Cash and cash equivalents	6	127	128
Trade and other receivables	7	13,980	8,585
Prepayments	8	352	429
Inventories	9	3,470	4,281
Total current assets		**17,929**	**13,423**
Non-current assets:			
Property and equipment	10	188,389	189,326
Right of use asset	11	5,279	7,039
Advances to suppliers of property, plant and equipment	12	797	187
Total non-current assets		**194,465**	**196,552**
TOTAL ASSETS		**212,394**	**209,975**
LIABILITIES AND EQUITY			
LIABILITIES:			
Current liabilities:			
Trade and other payables	13	9,074	9,345
Amounts due to related parties	19	2,887	2,887
Taxes other than income tax payable	14	2,148	401
Profit petroleum payable under the ERDPSA	15	1,261	951
Interest-bearing loans and borrowings	16, 19	74,254	66,255
Lease liability	17	2,753	1,521
Environmental liability		66	-
Total current liabilities		**92,443**	**81,360**
Non-current liabilities:			
Interest-bearing loans and borrowings	16, 19	671	80
Provision for well abandonment and site restoration	18	1,138	757
Lease liability	17	4,374	5,942
Total non-current liabilities		**6,183**	**6,779**
Total liabilities		**98,626**	**88,139**
EQUITY:			
Share capital	20	180	180
Paid in capital	20	105,325	104,231
Retained earnings		8,263	17,425
Total equity		**113,768**	**121,836**
TOTAL LIABILITIES AND EQUITY		**212,394**	**209,975**

On behalf of the Management:

John Harkins
President and Chief Executive Officer

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

The notes on pages 8 to 43 form an integral part of these financial statements.

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2020
(In thousand United States dollars)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019 (Reclassified/ restated)
REVENUES:			
Oil and gas revenues	21	24,358	30,413
Less profit petroleum under the ERDPSA	15	(463)	(1,197)
Less selling and transportation costs	22	(667)	(831)
NET REVENUES		**23,228**	**28,385**
COSTS AND EXPENSES:			
Operating expenses	23	(16,583)	(20,799)
Depreciation, depletion and amortization	10, 11	(10,785)	(10,414)
General and administrative expenses	24	(3,303)	(6,705)
OPERATING PROFIT		**(7,443)**	**(9,533)**
Finance expenses	25	(8,689)	(8,926)
Reversal of impairment loss on property and equipment, net	10	6,948	941
Foreign exchange loss, net		(8)	(43)
Gain from rent concession	17	30	185
Other income		-	353
NET LOSS FOR THE YEAR		**(9,162)**	**(17,023)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(9,162)**	**(17,023)**
NET LOSS PER SHARE	**20**	**(4.22)**	**(0.95)**

On behalf of the Management:

John Harkins
President and Chief Executive Officer

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

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GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020
(In thousand United States dollars)

	Share capital	Paid in capital	Retained earnings/	Total equity
January 1, 2019 (Restated)	**180**	**104,231**	**34,448**	**138,859**
Total comprehensive loss (restated)	-	-	(17,023)	(17,023)
December 31, 2019 (Restated)	**180**	**104,231**	**17,425**	**121,836**
Transfer to paid in capital (Note 16)	-	1,094	-	1,094
Total comprehensive loss	-	-	(9,162)	(9,162)
December 31, 2020	**180**	**105,325**	**8,263**	**113,768**

On behalf of the Management:

John Harkins
President and Chief Executive Officer

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

The notes on pages 8 to 43 form an integral part of these financial statements.

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2020
(In thousand United States dollars)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019 (Reclassified/ restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss from operations		(9,162)	(17,023)
Adjustments to add non-cash items:			
Depreciation, depletion and amortization	10	10,785	10,414
Finance expenses	25	8,689	8,926
Foreign exchange loss		8	43
Gain from rent concession	17	(30)	(185)
Reversal of impairment loss on property and equipment	10	(6,948)	(941)
Working capital adjustments:			
Change in trade and other receivables		(5,395)	3,936
Change in inventories		811	(968)
Change in prepayments		77	(405)
Change in trade and other payables		(279)	182
Change in amounts due to related parties		-	252
Change in profit petroleum payable under ERDPSA		310	951
Change in taxes other than income tax payables		1,747	401
Change in environmental liabilities		66	-
Net cash flows from operating activities		**679**	**5,583**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for property and equipment		(1,468)	(3,916)
Net cash flows used in investing activities		**(1,468)**	**(3,916)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings	16	(399)	(11)
Proceeds from borrowings	16	2,541	272
Payment for the lease liability	17	(1,335)	(2,365)
Interest paid on borrowings	16	(19)	-
Net cash flows from/(used) in financing activities		**788**	**(2,104)**
Effect of changes in exchange rates on cash and cash equivalents		-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1)	(437)
CASH AND CASH EQUIVALENTS, *beginning of the year*	6	**128**	**565**
CASH AND CASH EQUIVALENTS, *end of the year*	6	**127**	**128**

On behalf of the Management:

John Harkins
President and Chief Executive Officer

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

The notes on pages 8 to 43 form an integral part of these financial statements.

1. GENERAL INFORMATION

Greenfields Petroleum Corporation ("Greenfields" or the "Group"), incorporated in the Cayman Islands, is an oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan. The company's head office is located at 2001 Timberloch Place, Suite 500, The Woodlands, Texas, 77380, U.S.A., and the registered office is located at 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands.

As at December 31, 2020 and December 31, 2019 the Company's shareholders comprised below:

	December 31, 2020		December 31, 2019	
	Number of shares	Ownership, %	Number of shares	Ownership, %
Vitol Energy Bermuda	1,064,144	49%	7,695,774	42.8%
Ingalls and Snyder	-	-	2,265,578	12.6%
Ingalls and Snyder (Robert L.	151,752	6.99%	449,520	2.5%
Ingalls and Snyder (Nikos	173,425	7.99%	881,058	4.9%
John W. Harkins	365,196	16.82%	593,366	3.3%
Dean Clark (Barbados)	124,100	5.71%	2,481,348	13.8%
Shareholder less than 5%	292,892	13.49%	3,614,137	20.1%
Total	**2,171,509**	**100%**	**17,980,781**	**100%**

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

The BEL is entitled to a twenty-five years period for development and production from the date of SOCAR's approval of the rehabilitation and production program on October 1, 2010. This period can be extended for another five years with the mutual consent of SOCAR and the BEL.

The ERDPSA has been ratified by the Parliament of the Republic of Azerbaijan and approved by the President of the Republic of Azerbaijan on April 27, 2010.

ERDPSA Operations

Under the provisions of the ERDPSA, the BEL and SOA have established the Bahar Energy Operating Company ("BEOC"), a United Arab Emirates registered joint operating company. Each company's ownership in BEOC is the same as its interest in the ERDPSA. BEOC does not generate any profits and does not charge any fees for operating the ERDPSA oil and gas properties.

Following the provisions of the ERDPSA, the Bahar Energy is required to carry SOA's 20% participating interest in the ERDPSA until the end of calendar quarter during which an average daily rate of Petroleum production from the contract rehabilitation area for thirty (30) consecutive days shall exceed at least two (2) times the average daily rate of the 2008 Petroleum Production ("Target Production Rate 2" or "TPR2") or 9,259 barrels of oil equivalent per day ("boe" or "boe/d").

Under the ERDPSA, Bahar Energy had the obligation to achieve, not later than three (3) years from the date of SOCAR's approval of the "Rehabilitation and Production Program", an average daily rate of petroleum production from the contract rehabilitation area during ninety (90) consecutive days to be one point five (1.5) times the average daily rate of the 2008 Petroleum Production ("Target Production Rate 1" or "TPR1") or 6,944 barrels of oil equivalent per day ("boe" or "boe/d").

On January 10, 2014 BEOC informed SOCAR that they had maintained an average of 6,962 boe/day for the previous 90 consecutive days meeting the TPR1 requirements in accordance with the ERDPSA. However, this production milestone has only been acknowledged by SOCAR in 2015, which has been followed by the payment of USD 2,000 thousand bonus obligation by BEL to the government according to the terms of ERDPSA. Meeting the TPR1 based on ERDPSA provisions secured the rights for BEL to the full twenty-five year development and production period. Additionally, finance cost started to be applied to unrecovered petroleum costs at the end of each calendar quarter.

On March 31, 2014, BEOC achieved Target Production Rate 2 ("TPR2") as defined in Article 3.5, "Special Provisions for Carrying SOA's Participating Interest" of the ERDPSA. Upon achieving TPR2, SOA became obligated to fund 20% of the Contract Rehabilitation Area operating costs and capital expenditures (together with the "Petroleum Costs") starting the second quarter of 2014, thereby relieving BEL from the obligation to carry SOA's 20% share of Petroleum Costs under Carry 1 provisions of the ERDPSA. With TPR2 met, both BEL and SOA, as contractors to the ERDPSA, were obligated to fund their proportionate share of Petroleum Costs through cash call requests issued by BEOC.

However, due to SOA's failure to fund cash calls, BEL continued to carry SOA's portion of petroleum costs. On April 19, 2017, BEL and SOCAR signed a 36 months protocol in respect of the carry of certain costs (the "Protocol"), which addresses the shortfall by SOA in funding its 20% share of Petroleum Costs incurred under the ERDPSA since April 2014. Per the Protocol, which is effective since April 19, 2017, SOA's 20% share of Petroleum Costs is to be funded from: (i) SOA's entitlement share of profit petroleum; and (ii) proceeds from SOCAR's marketing of the 10% compensatory petroleum delivered at no charge to SOCAR by the ERDPSA, (together with the "Protocol Proceeds"). The cash call funding deficiencies by SOA are to be funded by BEL, and the amounts equivalent to BEL's overfunding will be added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA Carry 1 recovery provisions.

On April 19, 2020 BEL and SOCAR signed an addendum on the amendment to the protocol on carry of SOA certain costs and concerning issues related to ERDPSA and the period of the protocol was prolonged another 36 months extending the period of recovery to April 19, 2023.

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

In recent years, Greenfields was unable to raise money through the public markets and the shares were thinly traded on the TSXV. Through the delisting process and a number of Shareholder approved transactions Greenfields was able to eliminate the burden of maintaining a public listing and continuing as a reporting issuer. Under applicable securities laws a broad range of regulatory obligations were imposed on companies, such as Greenfields, with public shareholders, including the provision of quarterly financial statements and information to shareholders, mandatory solicitation of proxies for annual meetings, increased insurance costs, transfer agent and stock exchange fees and compliance cost and shareholder communication costs. These regulatory requirements necessitated the employment of independent accountants, reserves evaluators, financial consultants, printers, lawyers and other skilled personnel. The Group believed that the anticipated time and costs entailed in meeting the additional disclosure and other regulatory obligations to which public companies are subject could not be justified in view of Greenfields's business strategy, including its limited number of public shareholders.

The Group applied to delist the shares from the TSX Venture Exchange ("TSXV") and to cease to be a reporting issuer in each province in which it reported and to terminate its public reporting obligations (the "Applications"). On September 11, 2020 the Group delisted and stopped trading on the TSXV. On May 27, 2021 the Group became non-reporting issuer.

2. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Group has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2020.

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Group as it does not have any interest rate hedge relationships.

IFRS 3 Business Combinations. Amendment of the definition of "Business" – The amendments help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

New definition of "Material" – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgments. The updated definition amends IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.

On May 15, 2020 IASB has published **"COVID-19-Related Rent Concessions (Amendment to IFRS 16)"** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in COVID-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact;
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

This standard had an effect on the consolidated financial statements (Note 17).

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted.

3. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 17 "Insurance contracts" – was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. This standard is not applicable to the Group.

Amendments to IAS 1 to clarify the classification of liabilities - In January 2020 the IASB has issued **"Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)"** providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework - Amendments to IFRS 3 In May 2020, the IASB issued Amendments to IFRS 3 "Business Combinations" - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of

IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16 in May 2020, the IASB issued Property, Plant and Equipment Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37 - in May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments - Fees in the "10 per cent" test for de-recognition of financial liabilities. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

"IAS 41 Agriculture" - Taxation in fair value measurements. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise declared, the new standards are not expected to have significant effect with consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future.

Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis. The consolidated financial statements are presented in the USD except when otherwise indicated.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Significant Events

In late 2019 outbreak of coronavirus had occurred in Wuhan province of China. The concentration as at December 31, 2019 was limited in a number of reported cases and geographic coverage to China only. After January 2020 the situation changed drastically and on March 2020 the World Health Organization (WHO) announced that the novel coronavirus (COVID-19) outbreak was characterized as a pandemic.

Many governments, including the government of Azerbaijan Republic have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain as well as demand for goods and services and resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates, and marked a decline in long-term interest rates in developed economies.

In addition to the slowdown in the World economy, oil prices have declined dramatically after OPEC and Russia were unable to agree on production cuts at their March 2020 meeting.

In September 2020, the escalation of unresolved conflict in Karabakh region (located in the southwest, which is internationally recognized as part of the Republic of Azerbaijan) resulted in clashes between the Republic of Azerbaijan and Armenian forces in occupied territories. In response, both countries introduced a curfew and military mobilization. Although the military actions mainly occurred in the western part of the Republic of Azerbaijan, some businesses were affected by the curfew which covered all the territories of the Republic of Azerbaijan including the capital Baku, to a certain degree. A complete ceasefire and a cessation of all hostilities in the zone of the Karabakh conflict was achieved on November 10, 2020. The level of macroeconomic effects of the state involvement in liberated regions is uncertain as of reporting date.

These events and conditions described above created a level of uncertainty and risk that companies have not encountered before. The above-mentioned events had a significant effect on the financial results of the Group during the year ended December 31, 2020 and in the subsequent period.

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in the following notes:

- Income tax;
- Oil and gas properties;
- Impairment;
- Provision for liabilities and charges, including Asset Retirement Obligation;
- Contingencies;
- Allocation of petroleum costs and cost recovery oil between contracting parties under Protocol.

Judgments

In the process of applying the Group's accounting policies, the management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Reserves base

Oil and gas development and production properties are depreciated on a unit-of-production basis, at a rate calculated by reference to the proved reserves determined in accordance with the Society of Petroleum Engineer's rules and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the ERDPSA. Future development costs are estimated using assumptions as to a number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

Carrying value of oil and gas assets

Wells are depreciated using the units-of-production (UOP) method over proved developed mineral reserves.

Other oil and gas assets are depreciated using the units-of-production (UOP) method over proved developed and undeveloped mineral reserves.

The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves.

This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- changes in proved reserves;
- the effect on proved reserves of differences between actual commodity prices and commodity price assumptions;
- unforeseen operational issues;
- revision of ERDPSA terms.

Initial recognition of related party transactions

In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires the initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Liquidity mismatch

As of December 31, 2020 and 2019 the current liabilities of the Group exceeded its current assets by USD 74,514 thousand and USD 67,937 thousand, respectively. The main reason of the liability mismatch is due to borrowings from related parties, which will fall into short-term time horizon.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The Group determines the level of impairment of non-financial assets on individual basis, unless it is not possible to estimate the recoverable amount of the individual asset. If the recoverable amount of an individual asset cannot be determined, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit (CGU).

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of goodwill and tangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Provision for expected credit losses of financial assets

The Group applies an internal model for assessing expected credit losses of its trade receivables. The model takes inputs from historical observed data, financial information and external rating reports of counterparties, if any, and assigns scores to counterparties. Afterwards, the internally evaluated scores are mapped to the probability of default rates of international rating agencies, such as Moody's. At every reporting date, default rates are updated based on the available latest information. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the counterparty's actual default in the future.

Allocation of petroleum costs and cost recovery oil between contracting parties under Protocol

As indicated in Note 1, in accordance to the Protocol, SOA's 20% share of Petroleum Costs is to be funded from: (i) SOA's entitlement share of profit petroleum; and (ii) proceeds from SOCAR's marketing of the 10% compensatory petroleum delivered at no charge to SOCAR by the ERDPSA, (together with the "Protocol Proceeds").

During the year ended December 31, 2020, Protocol Proceeds in the amount of USD 3,030 thousands were used to fund the share of SOA for funding and accordingly the petroleum costs attributable to BEL decreased. (December 31, 2019: USD 4,217 thousands).

Management believes that the allocation of petroleum costs and cost recovery oil between contracting parties complies with the requirements of the Protocol.

Decommissioning (Abandonment) costs

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The Group estimated the related decommissioning costs of oil wells based on the management's competence and benchmark information. The estimation of decommissioning costs mainly included certain materials and manpower, rent of vessels, equipment and other services that used in the calculation of provision for well abandonment fund based on 74 active oil wells. The management believes that the Group is not liable for the decommissioning of other oil and gas properties (inactive wells and assets originated before ERDPSA sign date). However, if the parties to ERDPSA agree on different scenario in future, the decommissioning costs might be changed.

Provision for obsolete and slow-moving inventory

At the end of every reporting period, the Group assesses the physical condition and usefulness of its inventories and recognizes provision against obsolete and slow-moving inventory, if it is necessary. The assessment is sensitive to the management's estimation on condition and future use of items and technological changes in the industry.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint operator recognizes in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;
(b) its liabilities, including its share of any liabilities incurred jointly;
(c) its revenue from the sale of its share of the output arising from the joint operation;
(d) its share of the revenue from the sale of the output by the joint operation;
(e) its expenses, including its share of any expenses incurred jointly.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollars ("USD"), which is the Group's functional and presentation currency.

Certain transactions and balances are carried out in Azerbaijan Manat ("AZN"). Within Azerbaijan, the official exchange rates are determined principally by the Central Bank of the Republic of Azerbaijan and are generally considered to be a reasonable approximation of market rates. The translation of AZN denominated assets and liabilities into USD for the purposes of these consolidated financial statements does not indicate that the Group could realize or settle in the USD the reported values of assets and liabilities. Likewise, it does not indicate that the Group could return or distribute the entire value of capital reported in the USD to its shareholder.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. 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 the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The exchange rates used to translate the AZN balances into the USD and EUR as of December 31, 2020 and 2019 were the official exchange rates of the Central Bank of the Republic of Azerbaijan ("CBRA"), which were as follows.

	December 31, 2020	**December 31, 2019**
AZN/USD	1.7000	1.7000
AZN/EUR	2.0890	1.9035

Pre-license (Pre-effective date) costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

During the geological and geophysical exploration phase, costs are accumulated in work in progress account. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, bonus payments to the government and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells is capitalized within oil and gas properties.

Oil and gas properties and other property, plant and equipment

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depletion, depreciation and accumulated impairment losses.

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 obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation, depletion and amortization

Wells and other oil and gas properties are depleted on a unit-of-production basis over the proved developed and proved reserves of the field concerned, correspondingly, except in the case of assets where useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, and major inspection costs are amortized over three to five years which represents the estimated period before the next planned major inspection.

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off.

Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

Construction in progress

Construction in progress includes all expenses related to the acquisition of property, plant and equipment, including respective variable overheads directly attributable to the construction. Accrual of depreciation and amortization of these assets commences when they are actually put into operation. The Group measures the carrying value of the construction in progress on a regular basis to identify any indication of impairment of construction in progress and to accrue a respective allowance.

Intangible assets

Intangible assets are stated at the amount initially recognized, less accumulated amortization and accumulated impairment losses. Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

Financial instruments

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;-
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets;-
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met;-
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group's majority of financial assets were classified as financial assets measured subsequently at amortized cost. The Group's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Group does not classify any financial liabilities as measured at fair value through profit or loss.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset (except trade receivables, where the simplified approach is elected) is measured at an amount equal to 12-month expected credit losses. For trade and other receivables, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

The Group utilizes an internal model to assess expected credit losses. The model was developed in accordance with IFRS 9 and designed to assess the credit risk exposure of counterparties taking into account the characteristics of financial assets by assigning scoring system to counterparties. The assigned score is returning PD (Probability of Default) on an individual basis. Move of the asset from one score band to a lower score band is considered a significant increase in credit risk among other criteria.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of financial liability.

De-recognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Supplies are valued at cost to the Group mainly using the weighted average cost method or net realizable value, whichever is the lower.

Pipeline fill

Crude oil which is necessary to bring a pipeline into working order is treated as a part of the related pipeline on the basis that it is not held for sale or consumed in a production process, but is necessary to the operation of a facility during more than one operating cycle, and its cost cannot be recouped through the sale (or is significantly impaired). This applies even if the part of the inventory that is deemed to be an item of property, plant and equipment cannot be separated physically from the rest of inventory. Valuation is carried at cost and it is depreciated over the useful life of related asset.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets, representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

If the ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Trade and other payables

Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost using the effective interest method.

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provision for well abandonment and site restoration

Provision for well abandonment and site restoration/decommissioning is recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Current income tax

The taxation of the Group's hydrocarbon activities conducted with respect to the ERDPSA contract area, as defined in Note 1, are governed by the provisions of the ERDPSA. According to these provisions, the Government represented by the State Oil Fund of the Republic of Azerbaijan ("SOFAZ"), must pay all income taxes on behalf of the Group and any interest, fines or penalties charged for a delay in the income tax payments.

If SOFAZ fails to pay the Group's income tax, including estimated income tax, then the Group shall have the right to make payments of its income tax directly to the state budget. In such a case, the government's future entitlement to lift profit petroleum shall be decreased and the Group's entitlement shall be increased correspondingly by a volume of equivalent value to such amount of income tax. The income tax rate is determined at a rate of twenty-two (22) percent, which shall remain fixed for the entire term of the ERDPSA.

The Group recognizes income tax liability according to the ERDPSA provisions and simultaneously decreases its obligation for profit petroleum under ERDPSA to the government by that amount. As of December 31, 2020, the Group had cumulative brought forward tax loss in the amount of USD 217,656 thousand (2019: USD 223,255 thousand).

Social protection fund

In accordance with the legislation of the Republic of Azerbaijan, the Group remits mandatory state social insurance contributions to the State Social Protection Fund of the Republic of Azerbaijan on behalf of their employees who are citizens of the Republic of Azerbaijan. These contributions represented 24.5% (SSPF-22%, compulsory health insurance-2% and unemployment insurance contributions-0.5%) of the employees' salaries in 2020 and 2019 and were expensed as incurred. The Group is not obliged to pay any post-retirement benefits.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Reporting Date" and disclosed accordingly.

Paid in capital

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 share-based payments 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.

Additionally, debt-to-equity swaps were considered as paid in capital.

Revenue recognition

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. Revenue from contracts with customers is recognized as or when the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of oil and gas in which the Group has an interest with other producers is recognized based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant. Sales between companies as disclosed are based on prices generally equivalent to commercially available prices.

Other income and expenses

Other income and expenses are recognized on an accrual basis.

Profit petroleum under ERDPSA

Profit petroleum is the balance of total production from the contract area under ERDPSA remaining after deducting the quantities of crude oil and non-associated natural gas necessary to enable recovery of operating costs and the portion of capital costs recovery petroleum used to recover accumulated capital costs which are calculated on a calendar quarter basis and shall be shared between the government, SOA and the Group according to the mechanism defined in Article 13.6 of ERDPSA. Profit petroleum payable under ERDPSA represents profit oil which should be distributed by the Group to the government.

Title to profit petroleum is out of crude oil and non-associated natural gas and is recognized at the time when the title to crude oil passes to the buyer in accordance with Article 13.7 of ERDPSA.

Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

5. RECLASSIFICATION AND RESTATEMENTS

Certain reclassifications and restatement corrections have been made to the consolidated financial statements for the year ended December 31, 2019 to conform to the true and fair presentation for the year ended December 31, 2020.

The effect of reclassifications and corrections on the consolidated statement of financial position and consolidated statement of comprehensive income as of December 31, 2019 is presented in the table below:

Statement of financial position		As previously reported	Reclassification/ restatement amount	As restated/ reclassified
	Notes	December 31, 2019	December 31, 2019	December 31, 2019
Cash and cash equivalents		128	-	128
Trade and other receivables	a	7,377	1,208	8,585
Accounts receivables from related party	c	681	(681)	-
Prepayments	a	1,010	(583)	429
Inventories	a	1,233	3,048	4,281
Property and equipment	a, f, j	179,139	10,187	189,326
Advances to suppliers of property, plant and equipment	a, b	-	187	187
Right of use asset	d	135	6,904	7,039
Trade and other payables	a	(9,480)	135	(9,345)
Accounts payables from related parties	e	(2,887)	2,887	-
Amount due to related parties	e	-	(2,887)	(2,887)
Short term loan from related parties	h	(803)	803	-
Interest bearing loans and borrowings (current)	h	(3,625)	(62,630)	(66,255)
Current portion of long-term loan from related parties	h	(61,645)	61,645	-
Profit petroleum payable under the ERDPSA	a, b	-	(951)	(951)
Taxes other than income tax payable	a, b	-	(401)	(401)
Lease liabilities (current)	d	(135)	(1,386)	(1,521)
Provision for well abandonment and site restoration	a, b, i	-	(757)	(757)
Lease liabilities (non-current)	d	-	(5,942)	(5,942)
Interest bearing loans and borrowings (non-current)	h	-	(80)	(80)
Retained earnings	j	(6,717)	(10,708)	(17,425)

Statement of comprehensive income		As previously reported	Reclassification/ restatement amount	As restated/ reclassified
	Notes	December 31, 2019	December 31, 2019	December 31, 2019
Oil and gas revenues	a, b	28,613	1,800	30,413
Less profit petroleum under ERDPSA	a, b	-	(1,197)	(1,197)
Less selling and transportation costs	a. b	-	(831)	(831)
Other income	a, b	-	353	353
Operating expenses	a, d	(23,718)	2,919	(20,799)
Marketing and transport cost	a, g	(103)	103	-
Depreciation, depletion and amortization	a	(9,550)	(864)	(10,414)
General and administrative expenses	a, g	419	(7,124)	(6,705)
Reversal of impairment loss on property and equipment	a, b, f	-	941	941
Gain from rent concession	d	-	185	185
Finance expenses	d, h, i	-	(8,926)	(8,926)
Interest expenses	a	(7,790)	7,790	-
Foreign exchange gain/(loss)	a, b	(12)	(31)	(43)

a) The Group made certain restatement and reclassification adjustments related to the application of proportioned consolidation method under IFRS 11;
b) Due to the fair presentation of the consolidated financial statements certain financial statement items were presented separately;
c) Accounts receivables from related parties in the amount of USD 681 thousand were reversed and reclassified within trade and other receivables account and profit petroleum payable under the ERDPSA account;
d) The Group restated the account and recognized additional right of use assets and lease liabilities in accordance with IFRS 16. Interest expense on lease liabilities in the amount of USD 1,214 thousand was recognized as finance expenses in the consolidated financial statements for the year ended December 31, 2019. Additionally, the Group recognized a gain from rent concession in the amount of USD 185 thousand;
e) The balance in the amount of USD 2,887 thousand was reclassified to amount due to related parties;
f) The Group made reversal of impairment losses in the amount of USD 941 thousand on construction in progress balances after assessment of list of materials;
g) The selling, marketing and transportation costs were reclassified to less selling and transportation costs in the consolidated financial statements;
h) The balance in the amount of USD 61,645 thousand was reclassified to interest bearing loans and borrowings and interest expenses on loans and borrowings in the amount of USD 7,630 thousand were recognized into finance expenses;
i) The Group recognized the provision for well abandonment and site restoration in accordance with ERDPSA in the amount of USD 757 thousand and presented in the consolidated financial statements. The related accretion expenses in the amount of USD 82 thousand were recognized as finance expense in the consolidated financial statements;
j) The reasons for change in retained earnings were mainly due to recognized provision for well abandonment, lease liability, cut-off errors and application of full method of consolidation. Protocol proceeds in the total amount of USD 4,217 thousand was adjusted as decrease of Groups share of capital costs in the amount of USD 717 thousand and operating costs of USD 3,500 thousand during the year ended December 31, 2019.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2020	December 31, 2019
Cash in hand	6	2
Cash at banks	121	126
Total cash and cash equivalents	**127**	**128**

7. TRADE AND OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
Trade receivables from oil sales	2,388	2,410
Trade receivables from natural gas sales	11,522	5,762
Other receivables	1,598	1,941
Less allowance for impairment	(1,528)	(1,528)
Total trade and other receivables, net	**13,980**	**8,585**

The trade receivables account was denominated in USD and represents amounts due from SOCAR for sales of crude oil and natural gas under the ERDPSA. As of December 31, 2020 and 2019, the Group considered the carrying amount of receivables as fully collectible.

8. PREPAYMENTS

The prepayments in the amount of USD 352 thousand and USD 429 thousand, include the advance payments for operating services and inventories to be used in operations as of December 2020 and 2019, respectively.

9. INVENTORIES

Inventories consist of the following:

	December 31, 2020	December 31, 2019
Spare parts and materials	3,336	4,131
Fuel	134	150
Total inventories	**3,470**	**4,281**

Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition.

10. PROPERTY AND EQUIPMENT

	Oil and gas properties	CIP	Other assets	Total
Initial cost				
January 1, 2019 (restated)	**207,050**	**13,718**	**1,658**	**222,426**
Additions	2,022	-	-	2,022
Transfer from inventory	-	1,836	-	1,836
Change in decommissioning provision	61	-	-	61
Transfer (internal)	2,287	(2,287)	-	-
December 31, 2019 (restated)	**211,420**	**13,267**	**1,658**	**226,345**
Additions	740	-	-	740
Transfer from inventory	-	118	-	118
Change in decommissioning provision	282	-	-	282
Transfer (internal)	1,459	(1,459)	-	-
December 31, 2020	**213,901**	**11,926**	**1,658**	**227,485**
Accumulated DDA				
January 1, 2019 (restated)	**(18,793)**	**(8,968)**	**(1,545)**	**(29,306)**
Charge for the period	(8,647)	-	(7)	(8,654)
Reversal of impairment loss	-	941	-	941
December 31, 2019 (restated)	**(27,440)**	**(8,027)**	**(1,552)**	**(37,019)**
Charge for the period	(9,014)	-	(11)	(9,025)
(Impairment loss)/Reversal of impairment loss	-	6,948	-	6,948
December 31, 2020	**(36,454)**	**(1,079)**	**(1,563)**	**(39,096)**
Net book value				
December 31, 2020	**177,447**	**10,847**	**95**	**188,389**
December 31, 2019	**183,980**	**5,240**	**106**	**189,326**

Bonus in the amount of USD 4,000 thousand, for the right to contract area development plan was paid to SOCAR in accordance with the ERDPSA and this cost has been included in the initial cost of oil and gas properties as of December 31, 2020 and 2019. The carrying amount of the bonus was USD 2,695 thousand as of December 31, 2020 (2019: USD 2,852 thousand).

The Group recorded reversal of impairment loss in the amount of USD 6,948 thousand to CIP due to change in future plans of utilization of those assets as of December 31, 2020 (2019: USD 941 thousand).

In assessing whether a write-down is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Unless otherwise indicated, the recoverable amount used in assessing the impairment charges is value in use.

After individual assessment of assets, the Group assesses the recoverable amount of cash-generating unit to which the oil and properties belong. The Group estimates value in the use of cash-generating unit using a discounted cash flow model. The calculation of value in use is most sensitive to the following assumptions:

- Production volumes;
- Discount rate;
- Commodity price.

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. The management utilizes a risk-adjusted basis for the different categories of oil reserves recognized (being 90% of proved, 50% of probable and 10% of possible reserves).

The Group generally estimates value in use using a discounted cash flow model. The future cash flows as of December 31, 2020 are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 11.23% (2019: 13.09%). This discount rate is derived from the Group's pre-tax weighted average cost of long-term borrowings.

The management uses escalated price case for commodity price assumption which implies a varying price over the life of the project with future escalations of prices indexed to the Brent Forward Pricing as listed on NYMEX and USD 95 per thousand cubic meters of natural gas.

As of December 31, 2020 and 2019 the Group did not recognize any impairment loss on cash-generating unit to which oil and gas properties belong.

The Group shall be responsible for the maintenance and repair of all facilities controlled and operated in connection with the petroleum operations. Fees from third parties' access to contractor facilities shall be credited to the petroleum operations account. SOCAR shall have the right to use excess capacity in contractor facilities provided such use does not interfere with or adversely affect petroleum operations. Third parties may use such excess capacity on terms agreed with contractor. Prior to zero balance the priority of such use of contractor facilities shall be first the Group, then third parties, and finally SOCAR. During the year ended December 31, 2020, the Group did not transfer any assets to SOCAR.

11. RIGHT-OF-USE ASSET

	Vessels	Office area	Total
Initial cost			
January 1, 2019 (restated)	**8,744**	**55**	**8,799**
December 31, 2019	**8,744**	**55**	**8,799**
December 31, 2020	**8,744**	**55**	**8,799**
Accumulated depreciation			
January 1, 2019	-	-	-
Charge for the year	(1,749)	(11)	(1,760)
December 31, 2019	**(1,749)**	**(11)**	**(1,760)**
Charge for the year	(1,749)	(11)	(1,760)
December 31, 2020	**(3,498)**	**(22)**	**(3,520)**
Net book value			
December 31, 2020	**5,246**	**33**	**5,279**
December 31, 2019	**6,995**	**44**	**7,039**

12. ADVANCES TO SUPPLIERS OF PROPERTY AND EQUIPMENT

As of December 31, 2020 and 2019 the advances to the suppliers of property and equipment in the amount of USD 797 thousand and USD 187 thousand include advances for capital repair of equipment and other assets, platforms, oil pipelines and etc.

13. TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
Trade accounts payable	8,978	9,208
Other payables	96	137
Total trade and other payables	**9,074**	**9,345**

As of December 31, 2020 and 2019, trade and other payables in the amount of USD 8,978 thousand and USD 9,208 thousand mainly include payables for repair of production and technical facilities, marine services, medical insurance of employees and other insurance services, electricity expenses, professional fees and other payables related to the Group's operations, respectively.

14. TAXES OTHER THAN INCOME TAX PAYABLE

	December 31, 2020	December 31, 2019
VAT payable	1,776	250
Personal income tax	293	132
Other tax payables	79	19
Total taxes other than income tax payable	**2,148**	**401**

As of December 31, 2020 and 2019, VAT payables in the amount of USD 1,776 thousand and USD 250 thousand represent the VAT payables from sales of natural gas to SOCAR Gas Export Department.

15. PROFIT PETROLEUM UNDER THE ERDPSA

Profit petroleum is the balance of total production from the contract area under the ERDPSA remaining after deducting the quantities of crude oil and non-associated natural gas necessary to enable recovery of operating costs and the portion of capital costs recovery petroleum used to recover accumulated capital costs which is calculated on a calendar quarter basis and shall be shared between the Government, SOA and the Group according to the mechanism defined in the ERDPSA. Profit petroleum payable under ERDPSA represents profit petroleum which should be distributed by the Group to the government.

Profit petroleum oil payable as of December 31, 2020 and 2019, consisted of the following:

	December 31, 2020	December 31, 2019
Profit petroleum payable to the government	1,261	951
Total profit petroleum payable under ERDPSA	**1,261**	**951**

According to the ERDPSA, the share of profit oil to which the government is entitled in a calendar year is deemed to include a portion representing the income tax imposed upon and due by the Group and which will be paid directly by SOFAZ on behalf of the Group to the appropriate tax authorities. This portion of income tax and revenue are presented gross in the statement of comprehensive income.

Profit petroleum under the ERDPSA represents the share of profit oil attributable to the government. The share of profit oil to which the government is entitled in a calendar year is deemed to include a portion representing the income tax imposed upon and due by the Group and which will be paid directly by SOFAZ on behalf of this Group to the appropriate tax authorities.

16. INTEREST BEARING LOANS AND BORROWINGS

Non-current portion:

Lender	Effective interest rate	Maturity date	As at December 31, 2020	As of December 31, 2019
Pasha loan 1	4%	04-05-21	-	26
Pasha loan 2	4%	07-05-21	-	18
Pasha loan 3	4%	07-05-21	-	14
Pasha loan 4	4%	07-05-21	-	22
Pasha loan 5	4%	27-05-21	-	-
Pasha loan 6	4%	07-05-21	-	-
Pasha loan 7	4%	07-05-21	-	-
Pasha loan 8	5%	04-05-22	143	-
Pasha loan 9	5%	04-05-22	112	-
Pasha loan 10	5%	04-05-22	191	-
Pasha loan 11	5%	04-05-22	225	-
Total non-current portion of interest-bearing loans and borrowings			**671**	**80**

Current portion:

Lender	Effective interest rate	Maturity date	As at December 31, 2020	As of December 31, 2019
Vitol Energy (Bermuda) Ltd.	LIBOR+11%	On demand	59,742	54,063
Ingalls and Snyder LLC	LIBOR+11%	On demand	8,466	7,582
Other individual corporate loans	LIBOR+11%	On demand	4,312	4,428
Pasha loan 1	4%	04-05-21	26	60
Pasha loan 2	4%	07-05-21	18	40
Pasha loan 3	4%	07-05-21	14	33
Pasha loan 4	4%	07-05-21	21	49
Pasha loan 5	4%	27-05-21	19	-
Pasha loan 6	4%	07-05-21	79	-
Pasha loan 7	4%	07-05-21	3	-
Pasha loan 8	5%	04-05-22	330	-
Pasha loan 9	5%	04-05-22	259	-
Pasha loan 10	5%	04-05-22	443	-
Pasha loan 11	5%	04-05-22	522	-
Total current portion of interest bearing loans and borrowings			**74,254**	**66,255**

During the year ended December 31, 2020, certain loan agreements have been signed between the BEOC and Pasha Bank OJSC in the amount of total amount of USD 2,541 thousand. The outstanding balance of those loans and borrowings was USD 2,405 thousand as of December 31, 2020 (2019: USD 262 thousand).

During the year ended December 31, 2020, the BEOC paid principal and interest expenses in the amounts of USD 399 thousand and USD 19 thousand, to Pasha Bank OJSC (2019: principal: USD 11 thousand, interest: nil).

Effective May 8, 2020, the Company and Vitol Energy (Bermuda) Ltd., executed the fourteenth amending agreement (the "Fourteenth Amending Agreement") to the Loan Agreement dated November 25, 2013. Pursuant to the Fourteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at May 8, 2020, being USD 64,042 thousand less the sum of USD 584 thousand converted to equity pursuant to a shares for debt conversion agreement dated effective April 24, 2020, totals USD 63,458 thousand, was converted to principal (the "Fourth Restructured Amount"); (ii) the maturity date to repay all the obligations fee was extended to June 25, 2020.

On May 4, 2020, the Company completed share issue in an aggregate of 1,272,470 shares (on a post-consolidation basis) to certain lenders to the Corporation in satisfaction of amounts owed to such lenders in the aggregate amount of USD 1,094 thousand at deemed price per share of USD 0.86.

During the year ended December 31, 2020, the Company and lenders agreed to extend the final maturity date of the loan until June 30, 2021.

A reconciliation of the opening and closing amounts of financial liabilities with relevant cash and non-cash changes from financing activities is stated below:

	As at January 1, 2020	**Non-cash changes**			**Cash changes**			**As at December 31 2020**
		Interest expense	*Debt to equity swap*	*Term change*	*New loans*	*Interest paid*	*Principal paid*	
Non-current Portion	80	-	-	(1,950)	2,541	-	-	671
Current Portion	66,255	7,561	(1,094)	1,950	-	(19)	(399)	74,254
	66,335	**7,561**	**(1,094)**	**-**	**2,541**	**(19)**	**(399)**	**74,925**

	As at January 1, 2019	**Non-cash changes**			**Cash changes**			**As at December 31, 2019**
		Interest expense	*Debt to equity swap*	*Term change*	*New loans*	*Interest paid*	*Principal paid*	
Non-current Portion	54,478	-	-	(54,670)	272	-	-	80
Current Portion	3,966	7,630	-	54,670	-	-	(11)	66,255
	58,444	**7,630**	**-**	**-**	**272**	**-**	**(11)**	**66,335**

17. LEASE LIABILITIES

	December 31, 2020	**December 31, 2020**
Lease liabilities (current)	2,753	1,521
Lease liabilities (non-current)	4,374	5,942
Total lease liabilities	**7,127**	**7,463**

As of December 31, 2020, future minimum lease payments were as follows:

	Minimum lease payments due		
	Within one year	**One to five years**	**Total**
Lease payments	3,736	5,313	9,049
Finance charges	(983)	(939)	(1,922)
Net present value as of December 31, 2020	**2,753**	**4,374**	**7,127**

As of December 31, 2019, future minimum lease payments were as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	2,550	7,651	10,201
Finance charges	(1,029)	(1,709)	(2,738)
Net present value as of December 31, 2019	**1,521**	**5,942**	**7,463**

A reconciliation of the opening and closing amounts of financial liabilities with relevant cash and non-cash changes from financing activities is stated below:

	Current portion	Non-current portion	As of December 31, 2020
January 1, 2020	**1,521**	**5,942**	**7,463**
Cash flow			
Lease paid	(1,335)	-	(1,335)
Non-cash changes			
Term charge	1,568	(1,568)	-
Rent concession	(30)	-	(30)
Interest expense	1,029	-	1,029
December 31, 2020	**2,753**	**4,374**	**7,127**

	Current portion	Non-current portion	As at December 31, 2019
January 1, 2019	**1,336**	**7,463**	**8,799**
Cash flow			
Lease paid	(2,365)	-	(2,365)
Non-cash changes			
Term charge	1,521	(1,521)	-
Gain from rent concession	(185)	-	(185)
Interest expense	1,214	-	1,214
December 31, 2019	**1,521**	**5,942**	**7,463**

18. PROVISION FOR WELL ABANDONMENT AND SITE RESTORATION

The Group makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The well abandonment and site restoration provision represents the present value of well abandonment and site restoration costs relating to oil and gas properties, which are expected to be incurred for various periods within the Group. ERDPSA determines the maximum liability of the Contractor parties for the well abandonment and site restoration provision. These estimates are reviewed regularly to take into account any material changes to the assumptions used in estimation. Under the provisions of ERDPSA, contractor parties are obliged to finance abandonment of all fixed assets employed in petroleum operations within the contract areas defined in ERDPSA, through the transfer of funds to an escrow account starting from July 01st, 2021.

As of December 31, 2020 and 2019, the amount of well abandonment and site restoration provision included in the initial value of oil and gas properties was USD 561 thousand and USD 279 thousand, respectively.

A reconciliation of the beginning and ending aggregate carrying amount of well abandonment and site restoration provision for the years ended December 31, 2020 and 2019 is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Opening balance	757	613
Additional liability	36	30
Revision of estimation due to change in discount rate	246	32
Accretion expense	99	82
Closing balance	**1,138**	**757**

The future undiscounted amount of the well abandonment and site restoration provision was USD 5,477 thousand and USD 5,259 thousand as of December 31, 2020 and 2019, respectively. According to the ERDPSA, well abandonment and site restoration provision fund is to be created in order to finance abandonment of all fixed assets to be employed. Management estimates that assets will begin to be abandoned at the expiration date of the ERDPSA, which is October 1, 2035.

The Group will make an assessment of future decommissioning costs of its movable assets based on well abandonment instructions issued by SOCAR and correspondingly revises its asset retirement obligation when there is a change in estimation.

The amount of the liability equals the present value of the future well abandonment and site restoration provision, using a risk-free interest rate adjusted for the effect of the Group's credit standing, which equals to 11.23% and 13.09% as of December 31, 2020 and 2019, respectively.

19. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below:

	Interest bearing loans and borrowings		Interest expense	
Nature of relationship	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Shareholder	60,314	54,866	6,321	6,369
Under common ownership	-	-	-	-
Total	**60,314**	**54,866**	**6,321**	**6,369**

	Amounts due to related parties	
Nature of relationship	**December 31, 2020**	**December 31, 2019**
Under common ownership	2,887	2,887
Total	**2,887**	**2,887**

Compensation of key management personnel

The remuneration of key management personnel of the Group for the year ended December 31, 2020 amounted to USD 649 thousand (2019: USD 625 thousand).

20. SHAREHOLDER'S EQUITY

As at December 31, 2020, the authorized share capital of the Group consists of 799,992,000 shares of nominal or par value of USD 0.10, 199,998,000 non-voting shares of nominal or par value of USD 0.10 and 100,000 preferred shares of nominal or par value of USD 0.01.

As of December 31, 2020 and 2019, paid in capital in the amount of USD 105,325 thousand and USD 104,231 thousand represents cash transfers to the Group and debt-to-equity conversion by the shareholders to make the Group sustainable in operations.

Common Shares

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

Common shares and paid-in capital continuity schedule:

Outstanding common shares	**Number of common shares**	**Amount**
January 1, 2019	**17,980,781**	**104,411**
December 31, 2019	**17,980,781**	**104,411**
Share consolidation (20:1)	899,039	104,411
Share issued in course of debt settlement	1,272,470	1,094
December 31, 2020	**2,171,509**	**105,505**

Per Share Information

Amounts are expressed in thousand United States dollars except per share amount	**December 31, 2020**	**December 31, 2019**
Weighted average number of common shares outstanding	2,171,509	17,980,781
Total comprehensive loss for the year	(9,162)	(17,023)
Basic and diluted loss per share	**(4.22)**	**(0.95)**

The average market value of the Group's common shares, used for purposes of calculating the dilutive effect of share options, is based on quoted market prices for the year that the equity instruments were outstanding. For the year ended December 31, 2020, no outstanding share options were issued. For the year ended December 31, 2019, 65,000 share options were excluded from calculating dilutive loss per share, as they were anti-dilutive. As of December 31, 2020, and December 31, 2019, the Company did not hold any common shares in the treasury.

21. OIL AND GAS REVENUES

The Group's revenues from crude oil are produced in the contract area under ERDPSA and exported through Baku-Novorossiysk and Baku-Tbilisi-Jeyhan pipeline systems. The customers of the Group are SOCAR Marketing and Economic Operations Department that receives the World Market Oil (WMO) at the delivery point in the territory of the Republic of Azerbaijan and carries and delivers to the international markets and SOCAR Gas Export which sells natural gas within the territory of the Republic of Azerbaijan. Revenue is stated net of delivery losses and net of sales taxes, excise duties and similar levies.

	Year ended December 31, 2020	**Year ended December 31, 2019**
Revenue from the sales of crude oil	7,427	13,916
Revenue from the sales of natural gas	16,931	16,497
Total revenue	**24,358**	**30,413**

During the year ended December 31, 2020, the delivered crude oil and natural gas comprised:

	Year ended December 31, 2020	Year ended December 31, 2019
Crude Oil production, bbl	185,581	232,223
Natural Gas production, millions of cubic metrics	181	179

22. SELLING AND TRANSPORTATION COSTS

	Year ended December 31, 2020	Year ended December 31, 2019
Transportation tariff	502	576
SOCAR pipeline transportation tariff	89	111
Commission to SOCAR Marketing and Operations Department	76	144
Total selling and transportation costs	**667**	**831**

For the year ended December 31, 2020 and 2019, selling and transportation costs represent the amounts accrued for various commissions, internal and external pipelines tariffs.

23. OPERATING EXPENSES

Operating expenses comprised the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Payroll	8,422	9,722
Rent expenses	3,051	4,589
Material costs	2,261	2,118
Electricity and other utility expenses	1,097	1,105
Regular repairs and maintenance	688	1,782
Fuel expenses	572	589
Security services	231	289
Health and safety expenses	65	56
Transport expenses	14	12
Ecological expenses	6	12
Other expenses	176	525
Total operating expenses	**16,583**	**20,799**

For the year ended December 31, 2020 the health and safety expenses under operating expenses include COVID-19 related expenses in the amount of USD 56 thousand (2019: nil).

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Payroll	2,313	1,998
Office, travel and other expenses	312	319
Professional services	303	3,390
Insurance	208	774
Communications	71	68
Rent expenses	52	106
Bank commissions	44	50
Total general and administrative expenses	**3,303**	**6,705**

For the year ended December 31, 2020 the other expenses under general and administrative expenses include COVID-19 related expenses in the amount of USD 56 thousand (2019: nil).

25. FINANCE EXPENSES

	Year ended December 31, 2020	Year ended December 31, 2019
Interest expense on interest-bearing loans and borrowings	7,561	7,630
Interest expense on lease liabilities	1,029	1,214
Accretion of asset retirement obligation	99	82
Total finance expenses	**8,689**	**8,926**

26. COMMITMENTS AND CONTINGENCIES

Operating Environment of the Company

The Group has significant exposure to the economy and level of international energy prices. There were a number of significant changes in the operating and economic environment during the first half of 2020, which had an impact on the Group's business activities.

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

In March 2020, the World Health Organization (WHO) announced that the spread of the COVID-19 virus across the globe was a pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most, if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. The global economy was negatively impacted by the coronavirus pandemic (COVID-19) spread in the first half of 2020. Starting from June 2020, many countries, including the Republic of Azerbaijan, demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently. As a result, recovery in global financial and commodity markets observed. However, subsequently the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lock-down measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment, and many other businesses also international trade much affected by these measures.

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment, but demonstrated stable growth during the second quarter of 2020. The government introduced support packages in the form of subsidized lending tools, payments to unemployed individuals and other subsidies to the entrepreneurs during the year to compensate for the economic slowdown caused by the pandemic.

The Group's operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government, as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. In the long-term, the Azerbaijan GDP is projected to trend around USD 50 billion in 2021 and USD 51 Billion in 2022, according to our econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat, as well as allocated foreign currency resources, which stabilized Azerbaijani Manat. This policy continued in 2020 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 7.25% - 6.25% with a steady decrease in rates.

The Group's management is monitoring changes in the macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set "Ba2" credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government together with tax, legal, regulatory and political developments. The Management is unable to predict all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

Legal proceedings

In the normal course of business, the Group received some claims from customers and counterparties. The Management expects that no material un-accrued losses will be incurred and accordingly no provision has been made in these special-purpose financial statements.

Tax legislation

Tax, currency and customs legislation of the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. The Management's interpretation of such legislation as applied to the transactions and activities of the Company may be challenged by the relevant authorities.

Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. The Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained.

Covenants and commitments under the ERDPSA

World Market Oil and Natural Gas contract

The Company entered into a sales agreement with SOCAR dated October 1, 2010, whereby the Company and SOA committed to sell their full entitlements of crude oil and natural gas produced in the ERDPSA contract area to SOCAR at market prices. Accordingly, the Company sold all the oil and natural gas produced from the rehabilitation area of the ERDPSA to SOCAR.

Zero Balance

Prior to zero balance, the priority of such use of contractor facilities shall be first the Group, then third parties, and finally SOCAR. SOCAR shall pay a mutually agreed fee for such use to be credited to the petroleum operations account. After zero balance, the priority shall be first the Group, then SOCAR and finally third parties. SOCAR's use after zero balance shall be free of charge, except that maintenance of contractor facilities for the time being not used by the Group and being utilized exclusively by SOCAR, shall be on terms to be mutually agreed.

Compensatory Petroleum Obligation

The Company obliged to deliver at no cost to SOCAR the amount of crude oil equal to 5% of total production of petroleum produced from the Contract Rehabilitation Area within three years following the effective date.

Commencing from fourth year following the effective date the Company obliged to deliver at no charge to SOCAR 10% of total production of petroleum produced from the Contract Rehabilitation Area until the amount so delivered is equivalent of 170,000 tons of crude oil and 630 million cubic meters of non-associated natural gas ("compensatory petroleum").

As of December 31, 2020 the Company has 129,702 tons of crude oil and 456 million cubic meters of non-associated natural gas remaining compensatory petroleum obligation under the ERDPSA (2019: 132,486 tons of crude oil and 476 million cubic meters of natural gas).

Commitment under Environmental Action Plan

Under the provisions of the ERDPSA, the Company is only liable for those direct losses or damages incurred by third parties (other than any government authorities of Republic of Azerbaijan) or arising out of any environmental pollution determined by the appropriate court of the Republic of Azerbaijan to have been caused by the fault of the Company. The Company is not responsible to bear any cost, expenses or material liability for claims, damages or losses arising out of or related to any environmental pollution or other environmental damages, condition or problems, which it did not cause, including but not limited to those in existence prior to December 22, 2009. In 2020 the Company undertook a process of cleaning the oil settling tanks, flow lines and separators to significantly improve the treatment of the produced water and as a result the residual oil and oil products in the produced water was reduced by a factor of 19.7 times.

Commitment on Capital Expenditures

The Group plans to undertake the capital expenditure commitments for sustainable production of the remaining ERDPSA period. The capital commitments were associated with the drilling and testing of exploration wells, the upgrade, refurbishment and construction of a drilling rig and other facilities, construction of new production facilities and etc. Under the potential work program, the management expect to invest funds in the amount of USD 53,122 thousand for long-term capital commitments during the period covering from 2021 to 2025.

27. FINANCIAL RISK MANAGEMENT

Concentration of credit risk

The Company is subject to credit risk from its portfolio of cash and cash equivalents. The Company manages the credit risk by depositing the majority of available cash with highly reputable foreign international banks. Cash balances maintained in several Azerbaijani banks are limited to a level sufficient to cover current operations only. Management of the Company continually monitors the status of the Azerbaijani banks where deposits are maintained.

The Company is also subject to credit risk from the accounts receivable related to oil sales. The Company's trade receivables consist solely of amounts receivable from SOCAR in USD. The Company performs an ongoing assessment of the collectability of accounts receivable. To date the Company has not experienced any credit losses with respect to its trade accounts receivable and management believes that all trade accounts receivable are fully collectible.

Liquidity risk

The analysis of undiscounted cash flows on the Company's liabilities by remaining contractual maturity at December 31, 2020 and 2019 are set out below:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	December 31, 2020 Total
LIABILITIES:						
Trade and other payables	(660)	(8,414)	-	-	-	(9,074)
Profit petroleum payable under the ERDPSA	-	(1,261)	-	-	-	(1,261)
Interest-bearing loans and borrowings	(72,530)	(199)	(85)	(2,263)	-	(75,077)
Lease liability	(311)	(623)	(2,802)	(5,313)	-	(9,049)
Environmental liability	-	-	(66)	-	-	(66)
Provision for well abandonment and site restoration					(5,477)	(5,477)
Taxes other than income tax payable	-	(2,148)	-	-	-	(2,148)
Amount due to related parties	-	-	(2,887)	-	-	(2,887)
TOTAL LIABILITIES	**(73,501)**	**(12,645)**	**(5,840)**	**(7,576)**	**(5,477)**	**(105,039)**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	December 31, 2019 Total
LIABILITIES:						
Trade and other payables	(500)	(8,845)	-	-	-	(9,345)
Profit petroleum payable under the ERDPSA	-	(951)	-	-	-	(951)
Interest-bearing loans and borrowings	(8,490)	(1,260)	(60,429)	(266)	-	(70,445)
Lease liability	(213)	(425)	(1,913)	(7,650)	-	(10,201)
Environmental liability	-	-	-	-	-	-
Provision for well abandonment and site restoration					(5,259)	(5,259)
Taxes other than income tax payable	-	(401)	-	-	-	(401)
Amount due to related parties	-	-	(2,887)	-	-	(2,887)
TOTAL LIABILITIES	**(9,203)**	**(11,882)**	**(65,229)**	**(7,916)**	**(5,259)**	**(99,489)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk is presented in the table below:

	USD	AZN	EUR	December 31, 2020 Total
MONETARY ASSETS				
Cash and cash equivalents	113	14	-	127
Trade and other receivables	12,223	1,757	-	13,980
TOTAL MONETARY ASSETS	**12,336**	**1,771**	**-**	**14,107**
MONETARY LIABILITIES				
Trade and other payables	(4,452)	(4,614) -	(8)	(9,074)
Taxes other than income tax payable	-	(2,148)	-	(2,148)
Lease liability	(7,127)	-	-	(7,127)
Interest bearing loans and borrowings	(74,925)	-	-	(74,925)
Profit petroleum payable under the RDPSA	(1,261)	-	-	(1,261)
Amount due to related parties	(2,887)	-	-	(2,887)
Environmental liability	(66)	-	-	(66)
Provision for well abandonment and site restoration	(1,138)	-	-	(1,138)
TOTAL MONETARY LIABILITIES	**(91,856)**	**(6,762)**	**(8)**	**(98,626)**
NET OPEN CURRENCY POSITION	**(79,520)**	**(4,991)**	**(8)**	**-**

	USD	AZN	EUR	December 31, 2019 Total
MONETARY ASSETS				
Cash and cash equivalents	85	43	-	128
Trade and other receivables	7,706	879	-	8,585
TOTAL MONETARY ASSETS	**7,791**	**922**	**-**	**8,713**
MONETARY LIABILITIES				
Trade and other payables	(5,321)	(4,015)	(9)	(9,345)
Taxes other than income tax payable	-	(401)	-	(401)
Lease liability	(7,463)	-	-	(7,463)
Interest-bearing loans and borrowings	(66,335)	-	-	(66,335)
Profit petroleum payable under the ERDPSA	(951)	-	-	(951)
Amount due to related parties	(2,887)	-	-	(2,887)
Environmental liability	-	-	-	-
Provision for well abandonment and site restoration	(757)	-	-	(757)
TOTAL MONETARY LIABILITIES	**(83,714)**	**(4,416)**	**(9)**	**(88,139)**
NET OPEN CURRENCY POSITION	**(75,923)**	**(3,494)**	**(9)**	

Interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial liabilities:				
Interest bearing loans and borrowings	(749)	749	(663)	663
Net impact on profit before tax	**(749)**	**749**	**(663)**	**663**

Currency risk sensitivity

The following table details the Company's sensitivity to a 10% increase and a decrease in the AZN and EUR against USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As of December 31, 2020		As of December 31, 2019	
	USD/AZN +10%	USD/AZN -10%	USD/AZN +10%	USD/AZN -10%
Impact on profit and loss accounts	(499)	499	(349)	349

	As of December 31, 2020		As of December 31, 2019	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on profit and loss accounts	(1)	1	(1)	1

Commodity price risk sensitivity

The Company is exposed to the risk of fluctuations in the prevailing market commodity prices on crude oil it produces.

The analysis is based on the assumption that the crude oil price changes 10% and all other variables held constant for each year individually.

	As of December 31, 2020		As of December 31, 2019	
	Oil and Gas price +10%	Oil and Gas price -10%	Oil and Gas price +10%	Oil and Gas price -10%
Impact on profit and loss accounts	2,436	(2,436)	3,041	(3,041)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate the potential risk that only represents the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 2020 and 2019 the Company had no financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized below:

			Fair value measurement using			
	Financial instrument Classification	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed						
Cash and cash equivalents	Financial assets at amortized cost	December 31, 2020	127	-	-	**127**
Trade and other receivables	Financial assets at amortized cost	December 31, 2020	-	-	13,980	**13,980**
Liabilities for which fair values are disclosed						
Trade and other payables	Financial liability at amortized cost	December 31, 2020	-	-	(9,074)	**(9,074)**
Profit petroleum payable under ERDPSA	Financial liability at amortized cost	December 31, 2020	-	-	(1,261)	**(1,261)**
Interest bearing loans and borrowings	Financial liability at amortized cost	December 31, 2020	-	-	(74,925)	**(74,925)**
Lease liabilities	Financial liability at amortized cost	December 31, 2020	-	-	(7,127)	**(7,127)**
Environmental liability	Financial liability at amortized cost	December 31, 2020	-	-	(66)	**(66)**
Provision for well abandonment and site restoration	Financial liability at amortized cost	December 31, 2020	-	-	(1,138)	**(1,138)**
Taxes other than income tax payable	Financial liability at amortized cost	December 31, 2020	-	-	(2,148)	**(2,148)**
Amounts due to related parties	Financial liability at amortized cost	December 31, 2020	-	-	(2,887)	**(2,887)**

	Financial instrument classification	Date of valuation	Fair value measurement using			Total
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed						
Cash and cash equivalents	Financial assets at amortized cost	December 31, 2019	128	-	-	**128**
Trade and other receivables	Financial assets at amortized cost	December 31, 2019	-	-	8,585	**8,585**
Liabilities for which fair values are disclosed						
Trade and other payables	Financial assets at amortized cost	December 31, 2019	-	-	(9,345)	**(9,345)**
Profit petroleum payable under ERDPSA	Financial assets at amortized cost	December 31, 2019	-	-	(951)	**(951)**
Interest bearing loans and borrowings	Financial liability at amortized cost	December 31, 2019	-	-	(66,335)	**(66,335)**
Lease liabilities	Financial liability at amortized cost	December 31, 2019	-	-	(7,463)	**(7,463)**
Provision for well abandonment and site restoration	Financial liability at amortized cost	December 31, 2020	-	-	(757)	**(757)**
Taxes other than income tax payable	Financial liability at amortized cost	December 31, 2020	-	-	(401)	**(401)**
Amounts due to related parties	Financial liability at amortized cost	December 31, 2019	-	-	(2,887)	**(2,887)**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by a class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2020	Fair value 2020	Unrecognized gain/(loss) 2020	Carrying value 2019	Fair value 2019	Unrecognized gain/(loss) 2019
Financial assets						
Cash and cash equivalents	127	127	-	128	128	-
Trade and other receivables	13,980	13,980	-	8,585	8,585	-
Financial liabilities						
Trade and other payables	(9,074)	(9,074)	-	(9,345)	(9,345)	-
Profit petroleum payable under the ERDPSA	(1,261)	(1,261)	-	(951)	(951)	-
Interest bearing loans and borrowings	(74,925)	(74,925)	-	(66,335)	(66,335)	-
Lease liabilities	(7,127)	(7,127)	-	(7,463)	(7,463)	-
Environmental liability	(66)	(66)	-	-	-	-
Provision for well abandonment and restoration	(1,138)	(1,138)	-	(757)	(757)	-
Taxes other than income tax payable	(2,148)	(2,148)	-	(401)	(401)	-
Amount due to related parties	(2,887)	(2,887)	-	(2,887)	(2,887)	-
Total unrecognized change in unrealized fair value			-			-

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable-rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. EVENTS AFTER THE REPORTING PERIOD

In May 2021, within the Annual Shareholders Meeting, it was approved the Group would consolidate the outstanding shares, with eliminating some minority shareholders. The Company will compensate these eliminated partial-share shareholders. Currently, management is in the process of implementing this with Alliance Trust and Canadian Depositors Systems.

Greenfields Petroleum Corporation
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June 21, 2021

Baker Tilly Azerbaijan CJSC
City Point Baku 9th floor
102A, J. Mammadguluzada str.
Baku AZ1022
Azerbaijan

Dear Sirs,

AUDIT OF FINANCIAL STATEMENTS – FOR THE YEAR ENDED DECEMBER 31, 2020.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officials of the Greenfields Petroleum Corporation ("The Company"), the following representations given to you in connection with your audit of the financial statements of the Greenfields Petroleum Corporation for the year ended December 31, 2020.

1. We acknowledge as directors our responsibility for the fair presentation of the Greenfields Petroleum Corporation financial statements in accordance with International Financial Reporting Standards (IFRSs). All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Company have been properly reflected and recorded in the accounting records. All other records and related information and explanations, including minutes of all meetings of directors, committees of directors, management and shareholders held between the beginning of the accounting period and the date of this letter, have been made available to you.
2. We confirm that we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.
3. We confirm that:
   a. We acknowledge responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
   b. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
   c. We have disclosed to you our knowledge of fraud and suspected fraud affecting the company involving:
      i Management;
      ii Employees who have significant roles in internal control; and
      iii Others where the fraud could have a material effect on the financial statements;

and

d. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

e. In respect of items included at fair value we confirm that the significant assumptions used are reasonable. We have no plans or intentions that would require a change to the measurement or disclosure of those items. Nor are we aware of any circumstances that would enforce a change in our plans or intentions.

f. The Company has satisfactory title to all assets and there are no liens or encumbrances on the Company's assets.

g. The Company's ultimate controlling party is Vitol Energy Bermuda.

4. We confirm that full disclosure is made in the financial statements of:

   a. Any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans, or credit transactions) for directors or any guarantee or provision of security for directors;

   b. The identity of the party which controls the Company, if any;

   c. Transactions and balances with related parties including:

      i. the names of the transacting parties;

      ii. a description of the relationship between the parties;

      iii. a description of the transactions;

      iv. the amounts involved (even if nil);

      v. any other elements of the transactions necessary for an understanding of the financial statements;

      vi. the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and

      vii. amounts written off in the period in respect of debts due to or from related parties;

   d. Outstanding capital commitments contracted for at the balance sheet date;

   e. All contingent liabilities including details of pending litigation and material claims against the company;

   f. All guarantees or warranties or other financial commitments.

   g. All the accruals accrued at year end were made based on our best estimation.

5. We have disclosed all events we are aware that involve possible non-compliance with those laws and regulations that provide a legal framework within which the company conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences which may arise from such non-compliance.

6. We believe that the current operations of the companies within the Company are in compliance with the provisions of the ERDPSA.

7. We confirm that the companies within the Company are in full compliance with relevant laws and regulations, whose effects were considered when preparing the financial statements.

8. We believe that the value of long-lived assets presented in the balance sheet approximates their fair value after the recognition of an impairment loss in the financial statements.

9. In preparing the financial statements in conformity with International Financial Reporting Standards, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
   a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
   b. The effect of the change would be material to the financial statements.

10. We confirm that the Company makes full provision for the future cost of decommissioning oil production facilities and pipelines on a discounted basis on the installation of those facilities. The well abandonment and site restoration provision represents the present value of well abandonment and site restoration costs relating to oil and gas properties, which are expected to be incurred for various periods within the Company. ERDPSA determines the maximum liability of the Contractor parties for the well abandonment and site restoration provision. These estimates are reviewed regularly by the management to take into account any material changes to the assumptions used in estimation. Under the provisions of ERDPSA, contractor parties are obliged to finance abandonment of all fixed assets employed in petroleum operations within the contract areas defined in ERDPSA, through the transfer of funds to an escrow account starting from July 1, 2021.

    We confirm that as of December 31, 2020 the amount of well abandonment and site restoration provision included in the initial value of oil and gas properties was USD 561 thousand, respectively.

    Additionally, we confirm that the future undiscounted amount of the well abandonment and site restoration provision was USD 5,477 thousand as of December 31, 2020, respectively. According to the ERDPSA, well abandonment and site restoration provision fund is to be created in order to finance abandonment of all fixed assets to be employed. Management estimates that assets will begin to be abandoned at the expiration date of the ERDPSA, which is October 1, 2035.

11. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

12. We have no plans to abandon lines of product or other plans or intention that will result in excess or obsolete inventory and no inventory is stated at an amount in excess of net realisable value.

13. We confirm that no breaches have occurred in bank covenants and liabilities correctly presented as current and long-term.

14. There have been no events (e.g. loss of key customer, supplier or member of staff, change in credit terms offered by suppliers, breaches of bank or other covenants, changes in banking or insurance arrangements or facilities) since the balance sheet date that would impact on the ability of the company to continue as a going concern. Should such events occur prior to your signature of the audit report we will advise you immediately. Except as already incorporated into our cash flow and profit forecasts we have no plans or intentions that would impact on the ability of the company to continue as a going concern.

15. We confirm that on January 10, 2014 BEOC informed SOCAR that they had maintained an average of 6,962 boe/day for the previous 90 consecutive days meeting the TPR1 requirements in accordance with the ERDPSA, thus BEL secured the rights to the full twenty-five years development and production period. Additionally, finance cost started to be applied to unrecovered petroleum costs at the end of each calendar quarter. All relevant documentation was provided to auditors.

16. On March 31, 2014, BEOC achieved Target Production Rate 2 ("TPR2") as defined in Article 3.5, "Special Provisions for Carrying SOA's Participating Interest" of the ERDPSA. Upon achieving TPR2, SOA became obligated to fund 20% of the Contract Rehabilitation Area operating costs and capital expenditures (together with the "Petroleum Costs") starting the second quarter of 2014, thereby relieving BEL from the obligation to carry SOA's 20% share of Petroleum Costs under Carry 1 provisions of the ERDPSA. With TPR2 met, both BEL and SOA, as contractors to the ERDPSA, were obligated to fund their proportionate share of Petroleum Costs through cash call requests issued by BEOC. All relevant supporting documents were provided to the auditors.

17. We confirm that all intercompany balances and transaction were identified and properly eliminated in the financial statements.

    The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding are detailed below:

	Amounts due to related parties ($ thousand)	
Nature of relationship	**December 31, 2020**	**December 31, 2019**
Under common ownership	2,887	2,887
Total	**2,887**	**2,887**

18. We confirm that the Company had significant interest-bearing loan and borrowing balances with related parties. The outstanding balance as at December 31, 2020 was USD 60,314 thousand and accrued interest expense as of December 31, 2020 was USD 6,321 thousand:

	Interest bearing loans and borrowings		Interest expense	
Nature of relationship	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Shareholder	60,314	54,866	6,321	6,369
Under common ownership	-	-	-	-
Total	**60,314**	**54,866**	**6,321**	**6,369**

19. We confirm that, the production charts and other assumptions used to generate the net revenues in reserve report of GLJ are the same as our internal production models.

20. We confirm that the reserves were evaluated by our specialists using know-how gathered from working with external specialists. We used our best estimation in evaluation of reserves and projection of net revenues by considering escalating oil prices. We provided all necessary information and documentation related to oil reserves and the value of reserves were confirmed by management.

21. We confirm that we used our best estimate for impairment testing of oil and gas properties. We consider that it is appropriate to use risk adjusted basis for the net cash flows from different categories of oil reserves (90% proved, 50% probable and 10% possible) and discount them using 1Y LIBOR + 11 % which can be considered as a market rate adjusted to risks (country, industry, etc). For the year ended December 31, 2020 the Company did not recognize impairment loss caused by positive projections in crude oil prices.

22. We analysed the individual oil wells based on individual approach and made decision that there were not oil wells which the Company does not expect to recover production in future. For year ended December 31, 2020, we have not recognized any impairment loss on oil and gas properties based on individual assessment.

23. We confirm that the Company recognized gain on lease modification in the amount of USD 30 thousand were recognized and presented as a separate line of the statement of comprehensive income.

24. We confirm below mentioned common shares and paid in capital continuity schedule:

Outstanding common shares	**Number of common shares**	**Amount ($ thousand)**
January 1, 2019	**17,980,781**	**104,410**
December 31, 2019	**17,980,781**	**104,410**
Share consolidation (20:1)	899,039	104,410
Share issued in course of debt settlement	1,272,470	1,094
December 31, 2020	**2,171,509**	**105,505**

25. We confirm that as at December 31, 2020 and December 31, 2019 the Company's shareholders comprised below:

	December 31, 2020		**December 31, 2019**	
	Number of shares	**Ownership, %**	**Number of shares**	**Ownership, %**
Vitol Energy Bermuda	1,064,144	49%	7,695,774	42.8%
Ingalls and Snyder	0	0%	2,265,578	12.6%
I&S (Robert L. Gipson)	151,752	6.99%	449,520	2.5%
I&S (Nikos Monoyios)	173,425	7.99%	881,058	4.9%
John W. Harkins	365,196	16.82%	593,366	3.3%
Dean Clark (Barbados)	124,100	5.71%	2,481,348	13.8%
Shareholder less than 5%	292,892	13.49%	3,614,137	20.1%
Total	**2,171,509**	**100%**	**17,980,781**	**100%**

DC

26. Below table represents the per share information which were included to the annual report by the management of the Company:

Amounts are expressed in thousand United States dollars except per share amount	**December 31, 2020**	**December 31, 2019**
Weighted average number of common shares outstanding	2,171,509	17,980,781
Total comprehensive loss for the year ($ thousand)	(9,162)	(17,023)
Basic and diluted loss per share ($/share)	**(4.22)**	**(0.95)**

27. We confirm that the Company realized debt to equity swap in the amount of USD 1,094 thousand as of December 31, 2021. All supporting documents were provided to the auditors.

28. We confirm that the Company has paid in capital in the amount of USD 105,325 thousand as separate line in the statement of financial position. The supporting documents exist to approve the paid capital amount.

29. The Company recognizes income tax liability according to the ERDPSA provisions and simultaneously, decreases its obligation for profit petroleum under ERDPSA to the government by that amount. We confirm that as of December 31, 2020 the Company had cumulative brought forward tax loss in the amount of USD 217,656 thousand. The management uses the best estimation and assumptions when calculating the CIT for the current year.

30. All trades in derivatives are in accordance with our risk management policies and have been appropriately recorded in the accounting records. The value at which the transactions are recorded in the financial statements is, in the opinion of the directors, the fair value. Any significant changes in those values since the balance sheet date have been disclosed to you. None of the terms of the trades have been amended by any side agreement and no documentation relating to derivatives and other financial instruments has been withheld.

31. No events have occurred subsequent to December 31, 2020 that requires consideration as adjustments to or disclosure in the financial statements or notes thereto. Should such further material events occur prior to your signature of the audit report, we will advise you accordingly.

32. According to the accounting policy, crude oil which is necessary to bring a pipeline into working order is treated as a part of the related pipeline on the basis that it is not held for sale or consumed in a production process, but is necessary to the operation of a facility during more than one operating cycle, and its cost cannot be recouped through sale (or is significantly impaired). This applies even if the part of inventory that is deemed to be an item of property, plant and equipment cannot be separated physically from the rest of inventory. Valuation is at cost and it is depleted over the useful life of related asset.

33. We did not recognize expected credit loss on financial assets taking into consideration the requirements of IFRS 9 *Financial Instruments.*

34. For the year ended December 31, 2020 the operating expenses include COVID-19 related expenses in the amount of USD 56 thousand.

35. We confirm that during the year ended December 31, 2020, the delivered crude oil and natural gas comprised:

	Year ended December 31, 2020
Crude Oil production, bbl	185,581
Natural Gas production, millions of cubic metrics	181

36. We confirm that finance expenses ($ thousand) for the year ended December 31, 2020 were as follows:

	Year ended December 31, 2020
Interest expense on interest-bearing loans and borrowings	7,561
Interest expense on lease liabilities	1,029
Accretion of asset retirement obligation	99
Total finance expenses	**8,689**

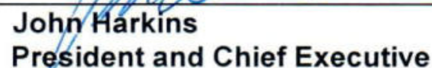
37. The management believes that the ultimate shareholder of the Company will provide necessary financing and other support needed to make it possible for the Company to continue as a going concern in the foreseeable future.

38. We have not adjusted the misstatements, described in Attachment 1, which were drawn to our attention by the auditors, because we consider that the amounts are not material and not posting the proposed adjustment will not change the economic decision of users. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully,

Signed on behalf of the Management of Greenfields Petroleum Corporation



John Harkins
President and Chief Executive

June 21, 2021
Baku, the Republic of Azerbaijan

Rasul Gafarov
Chief Financial Officer and Treasurer

June 21, 2021
Baku, the Republic of Azerbaijan

Attachment #1

List of unadjusted misstatements:

Accounts effected	***Dr (USD)***	***Cr (USD)***
Inventories (oil in stock)	36,386	
Operating expenses		(36,386)
Oil in stock figure as at December 31, 2020		

Accounts effected	***Dr (USD)***	***Cr (USD)***
Property, plant and equipment	165,341	
Retained earnings		(165,341)
NBV of oil in pipelines were recognized in 2019		

Accounts effected	***Dr (USD)***	***Cr (USD)***
Retained earnings	3,760	
Property, plant and equipment		(3,760)
Accumulated depletion for crude oil in pipeline in year of 2019		

Accounts effected	***Dr (USD)***	***Cr (USD)***
Income tax expense	3,760	
Income tax payable		(3,760)
Accumulated depletion for crude oil in pipeline in year of 2020		

GREENFIELDS PETROLEUM CORPORATION

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June 21st, 2021

Ziya Ibrahimov
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Dear Mr. Ziya Ibrahimov,

In my capacity as a Chief Executive Officer of Greenfields Petroleum Corporation ("Company"), I would like to state that no court cases were launched by or against the Company since the inception date until the date of this letter.

At the same time, to the best of my knowledge, there are no potential court cases that could be raised against the Company after the release of this letter.

Sincerely Yours,

John W. Harkins
Chief Executive Officer