GREENFIELDS PETROLEUM CORPORATION

ahead of the curve

Consolidated Financial Statements

(Unaudited)

For the years ended
December 31, 2019 and 2018

GREENFIELDS PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

US$000s

	Notes	As at December 31, 2019	As at December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		128	565
Accounts receivable	5	7,377	5,058
Accounts receivable related party	6	681	683
Advances for Operating Activities		950	1,193
Prepaid expenses and deposits		60	24
Inventories, net	7	1,233	3,313
		10,429	10,836
Non-Current Assets			
Property and equipment, net	8	179,120	182,635
Right-of-use asset, net	8	135	-
		189,684	193,471
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	9	9,481	9,124
Accounts payable related parties	6	2,887	2,635
Lease Liabilities	19	135	-
Short term loans related parties	10	803	719
Short term loans	10	3,625	3,246
Current portion long term loan related party	11	22,689	12,908
		39,620	28,632
Non-Current Liabilities			
Long term loan related party	11	38,956	41,570
Shareholders' Equity	12		
Common shares		180	180
Paid in capital		104,230	104,230
Share-based payments reserve		-	5,613
Surplus		6,698	13,246
Total Shareholders' Equity		111,108	123,269
(Basis of presentation and going concern – Note 2)		189,684	193,471

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

(signed) "John W. Harkins"	*(signed) "Michael J. Hibberd"*
John W. Harkins	Michael J. Hibberd
Director	*Director*

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Revenues		
Crude oil and natural gas *(Note 15)*	28,613	30,962
Expenses		
Operating *(Note 15)*	23,718	23,359
Marketing &Transportation	103	107
Administrative *(Note 18)*	(419)	3,606
Depreciation and amortization *(Note 8)*	9,569	6,479
	32,971	33,551
Income(Loss) from operating activities	(4,358)	(2,589)
Other Income(Expense)		
Interest expense *(Note 14)*	(7,790)	(8,103)
Foreign exchange gain (loss)	(12)	37
Net Loss	(12,160)	(10,655)
Total comprehensive loss	(12,160)	(10,655)
Per share		
Loss per share, basic and diluted *(Note 12)*	($0.68)	($0.59)

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

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

	Year Ended December 31,	
	2019	2018
Common shares *(Note 12)*		
Balance, beginning of period	180	180
Balance, end of period	180	180
Paid in Capital		
Balance, beginning of period	104,230	104,230
Balance, end of period	104,230	104,230
Share-based payments reserve		
Balance, beginning of period	5,613	5,589
Share-based payments	(5,613)	24
Balance, end of period	-	5,613
Surplus		
Balance, beginning of period	13,246	23,901
Share based payment reserve	5,613	-
Net loss for the period	(12,161)	(10,655)
Balance, end of period	6,698	13,246
Total Shareholders' Equity	111,108	123,269

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

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

	Year Ended December 31,	
	2019	2018
Operating Activities		
Net loss for the period	(12,160)	(10,655)
Items not affecting cash:		
Share-based compensation *(Note 13)*	(181)	(69)
Gain on sale of property and equipment	-	(253)
Depreciation and amortization	9,569	6,479
Interest expense *(Note 14)*	7,630	8,103
Unrealized foreign exchange (gain) loss	12	(35)
Cash Provided by operating activities before change in operating working capital	4,870	3,570
Change in non-cash operating working capital *(Note 16)*	9,065	11,302
Cash Provided by Operating Activities	13,935	14,872
Financing Activities		
Principal payments of lease liabilities	(1,067)	-
Change in non-cash working capital	(9,781)	(12,908)
Cash used in Financing Activities	(10,848)	(12,908)
Investing Activities		
Proceeds from sale of property and equipment	-	2,579
Property and equipment	(3,524)	(4,721)
Cash Used in Investing Activities	(3,524)	(2,142)
Effect of foreign exchange rates on cash	-	2
Increase in Cash and Cash Equivalents	(437)	(176)
Cash and Cash Equivalents, beginning of period	565	741
Cash and Cash Equivalents, end of period	128	565

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

1. INCORPORATION AND NATURE OF OPERATIONS

Greenfields Petroleum Corporation ("**Greenfields**" or the "**Company**"), incorporated in the Cayman Islands, is an oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves principally in the Republic of Azerbaijan ("**Azerbaijan**"). The head office of the Company is located at 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. The Company's common shares are listed on Toronto's TSX Venture Exchange ("**TSXV**") under the trading symbol "GNF."

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

Operating Environment of the Company

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

2. BASIS OF PRESENTATION AND GOING CONCERN

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

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

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

These consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on June xx, 2020.

The Company is producing, developing, and exploring oil and gas propertiesthat require extensive capital investments. The recovery of the Company's investment is dependent upon its ability to complete the development of oil and gas properties, which includes meeting the related financing requirements. For the year ended December 31, 2019, the Company reported a net loss of $12.2 million (December 31, 2018 – a net loss of $10.7 million), respectively, and has an accumulated surplus of $6.7 million as at December 31, 2019. However, the Company has a negative working capital balance of approximately $29.1 million as at December 31, 2019. Consequently, the Company's ability to continue as a going concern depends on the Company being successful in raising additional capital through debt financing or issuing equity on favorable terms; collecting amounts due to the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

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

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 US$64,042,068 less the sum of US$584,000 converted to equity pursuant to a shares for debt conversion agreement dated effective April 24, 2020, totals US$63,458,068, was converted to principal (the "**Fourth Restructured Amount**"); (ii) the maturity date to repay all the obligations fee was deferred to June 25, 2020. See *Note 22 - Subsequent Events*. In the interim, the Company continues to work to generate sufficient cash flow to meet its forward operating working capital obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company's subsidiaries as at December 31, 2019, and 2018.

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

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated upon consolidation. Investments in companies in which the Company does not maintain significant influence or joint control are accounted for ona cost basis.
The Company records its share of assets and liabilities associated with joint operations while joint ventures follow the equity method of accounting. Under the equity method of accounting:

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

Cash and cash equivalents

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

Accounts receivable

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

Exploration and evaluation costs ("E&E")

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

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

Development costs

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

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

Property and equipment ("P&E")

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

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

Capitalized costs of oil and gas properties were depleted using the unit of production method; up till 2018 acquisition costs of properties were amortized over the Company's best estimate of total proved recoverable reserves. From 2019 onwards, the company is amortizing over it's best estimate of total proved developed reserves. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis at a ratio of six thousand cubic feet of natural gas for one barrel of oil. The Company's other assets consist mainly of leasehold improvements, computers, software, furniture and fixtures, and support equipment not directly related to oil and gas properties. For these assets, depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value.

Impairment and reversals of impairment

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

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

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

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

Decommissioning liabilities

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

Carried interest

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

Share-based payments

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

Income taxes

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

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

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law. The TCJA includes significant changes to the U.S. corporate income tax structure, including a federal corporate rate reduction from 35% to 21% effective January 1, 2018.

Revenue recognition

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

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

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

Leases

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

Per-share amounts

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

Financial instruments

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

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

measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Fair value hierarchy

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

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

Impairment of financial assets

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

Foreign currency translation

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

Borrowing Costs

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

Critical judgments, estimation uncertainty, and assumptions

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

a) Cash generating units

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

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

b) Functional currency

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

c) Decommissioning liabilities

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

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

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

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

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

d) *Exploration and evaluation*

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

e) Fair value measurement

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

f) Deferred taxes

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

In 2011 the Company elected to derecognize its accumulated deferred tax asset but will continue to reassess the unrecognized deferred tax asset at the end of each reporting period. *See Note 17 – Deferred Income Taxes*.

4. Changes in Accounting Policies and Disclosures

The Company applied for the first time certain new standards, amendments, and interpretations effective January 1, 2019:

Adoption of IFRS 16 "Leases"

IFRS 16 requires lessees to account for all leases, with certain exceptions, under a single on-balance sheet model, similar to finance leases under the previous effective standards IAS 17 *Leases* ("**IAS 17**") and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* ("**IFRIC 4**"). Under the previous guidance, lessees were required to determine if a lease was a finance or operating lease, based on specified criteria. Finance lease liabilities were recognized on the statements of financial position while operating leases were recognized in the statements of comprehensive loss when the expense was incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use ("**ROU**") asset for both finance and operating lease contracts.

The Company adopted the standard effective January 1, 2019, applying the modified retrospective transition approach, which does not require a restatement of prior period financial information. This approach recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's statements of financial position, statements of comprehensive loss, changes in equity and cash flows have not been restated and continues to be accounted for in accordance with the Company's previous accounting policy found in the audited consolidated financial statements as at and for the year ended December 31, 2018.

On adoption, the Company elected to use the following practical expedients permitted under IFRS 16:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- For certain leases, initial direct costs were excluded from the measurement of the ROU asset.
- ROU assets and liabilities for short-term leases (ending within 12 months from January 1, 2019) and leases of low-value assets (less than $5 thousand) identified were not recognized on the consolidated statement of financial position.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to the leasing of vehicles and production equipment previously classified as operating leases under IAS 17. Under the new standard, these leases have been measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate of 13.8%. As atJanuary 1, 2019, the Company recorded lease liabilities of $0.6 million.

The associated right-of-use asset was measured at a cost that includes the amount of lease liabilities recognized and initial direct costs incurred. As at January 1, 2019, the Company recognized a right-of-use asset of $0.6 million. See *Note 16* – Commitments *and Contingencies* for a reconciliation of the Company's lease commitments as at December 31, 2018, and the lease liability recognized on the Company's statement of financial position at January 1, 2019. The cumulative effect of adopting this standard and its impact on the financial statements was not material.

The impact of the adoption of IFRS 16 as at January 1, 2019, is as follows:

US$000's	Reported at December 31, 2018	IFRS 16 Adjustment	Balance at January 1, 2019
Assets			
Right-of-use	-	645	645
Liabilities			
Lease liability	-	645	645

IFRS 16 – Summary of Accounting Policies

a) *Right-of-use assets*

The Company recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU 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. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. ROU assets are subject to impairment. The cost of ROU assets is recognized in accordance with the Company's accounting policy for carried interest through which the Company recognizes its expenditures under a carried interest arrangement with respect to its interest and the interest retained by the other party as and when costs are incurred. Such expenditures are recognized in the same way as the Company's directly incurred expenditures. In relation to the SOA's 20% interest in the ERDPSA, the Company recognizes expenditures in excess of amounts reimbursed by SOA.

b) *Lease liabilities*

At the commencement date of a lease, the Company recognizes a lease liability 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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if 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 remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c) *Critical judgments, estimation uncertainty and assumptions*

- Lease vs. non-lease components: In assessing contracts which may include both a lease (ROU asset) or a service component, a determination to separate the service component depends on its materiality and whether the components can be contracted separately. Judgment was required in the assessment of the ROU asset and lease liability relating to Electric Submersible Pumps ("**ESP**") where the contract included a monitoring service. The Company elected to recognize the monitoring service as part of the ROU asset as such service is an inherent part of the ESP operation provided at a very low incremental cost.
- Incremental borrowing rate: the incremental borrowing rate is based on the Company's prevailing interest rate for the senior debt at January 1, 2019, which consists of LIBOR plus 11% per the corresponding loan agreement. The carrying balance of the right-of-use assets, lease liabilities, and the resulting depreciation and finance expenses may differ due to changes in the interest rate and lease term.

IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23 to clarify accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019, and the adoption of IFRIC 23 did not result in significant changes in the estimates and judgments applied with respect to uncertainty over income tax treatments, and no adjustments were recognized upon transition in the consolidated financial statements.

Amendments to IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28")

In October 2017, the IASB issued amendments to IAS 28 to clarify that a company applies IFRS 9 *Financial Instruments* to long term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The adoption of the amendments on January 1, 2019, did not have an impacton the consolidated financial statements.

Fair value of financial instruments

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

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

5. ACCOUNTS RECEIVABLE

Accounts receivable are mainly from sales of crude oil and gas under the ERDPSA. The receivables are non-interest bearing and generally collected on 30 to 90-day terms. As at December 31, 2019, the Company had the following outstanding accounts receivable balances:

US$000's	December 31, 2019	December 31, 2018
Crude oil	2,035	2,074
Natural gas	4,139	2,479
Other receivables [1]	1,203	505
	7,377	5,058

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

6. RELATED PARTY TRANSACTIONS

Accounts receivable related party

As at December 31, 2019, the Company had a related party receivable balance of $0.7 million (December 31, 2018 - $0.7 million) in connection with Protocol Proceeds. See *Protocol on Carry of SOA Certain Costs in Note 15 – Segment Information.*

US$000's	
SOA related party receivable at December 31, 2018	683
Protocol Proceeds accrued during the period	4,224
Protocol Proceeds collected during the period	(4,226)
SOA related party receivable at December 31, 2019	681

Accounts payable related parties

As at December 31, 2019, the Company had an accounts payable related parties balance of $2.9 million (December 31, 2018 - $2.6 million). The balance consists of funds owed to Vitol's subsidiaries in connection with a $1.4 million restructuring fee under the Twelfth Amending Agreement (see *Note 11 - Long Term Loan Related Party*) and $1.5 million in fees for technical consulting services.

7. INVENTORIES

At December 31, 2019, the Company had operating inventories of $1.2 million (December 31, 2018 - $3.3 million) consisting of spare parts, consumables, lubricants, and fuel. Inventories are stated at the lower of cost or net realizable value.

8. PROPERTY AND EQUIPMENT, NET

US$000's	Oil and Gas Properties	Corporate and other	Total
As at December 31, 2018	201,919	347	202,266
Additions	3,524	-	3,524
Reclass from inventories	1,463	-	1,463
As at December 31, 2019	206,906	347	207,253
Less: Accumulated DD&A			
As at December 31, 2018	19,287	344	19,631
Additions [(1) (2)]	8,499	3	8,502
As at December 31, 2019	27,786	347	28,133
Net property and equipment			
As at December 31, 2018	182,632	3	182,635
As at December 31, 2019	179,120	-	179,120

(1) Excludes depreciation charges of $1,067 thousand in connection with ROU assets recognized in the consolidated statements of financial position.
(2) Capitalized costs of oil and gas properties were depleted using the unit of production method;until2018 acquisition costs of properties were amortized over the Company's best estimate of total proved recoverable reserves. From 2019 onwards, the company is amortizing over the best estimate of total proved developed reserves

Details of ROU assets are as follows:

US$000's	ESP	Vehicles	Total
As at December 31, 2018	-	-	-
Effect of IFRS transition	635	10	645
As at January 1, 2019	635	10	645
Additions	455	102	557
Period Amortization (3)	(960)	(107)	(1,067)
As at December 31, 2019	130	5	135

(3) As a result of adopting IFRS 16, lease principal payments are recorded as amortization expense in the consolidated statements of comprehensive loss.

Legal title to property and equipment

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	December 31, 2019	December 31, 2018
Trade accounts payable (1)	7,428	5,202
Accrued liabilities (2)	2,053	3,922
	9,481	9,124

(1) Trade accounts payable mainly consists of trade payables related to BEOC, the operating company under the ERDPSA.
(2) Accrued liabilities include wages, bonuses, taxes, and other obligations.

10. SHORT TERM LOANS

Short Term Loans Related Parties

In September 2016, the Company secured additional funding of $550 thousand from five insiders of the Company (the "**Related Party Loans – Insiders**") with interest accruing at the rate of 12% per annum and maturity date of March 31, 2018. Interest payment is due at maturity, thereby the Company includes accrued interest in the carrying value of the loan. In consideration for the additional funding, the lenders received the fraction of 0.12 common shares for each USD$1.00 of principal amount loaned to the Company which value was recorded as deferred loan costs and is accreted over the life of the loans to interest expense. The Related Party Loans – Insiders are measured at amortized cost to reflect this accretion. The aggregation of accrued interest and accreted transaction costs results in an effective interest rate of 27.7%. In December 2019, the maturity of the loans was extended to June 30, 2020.

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

US$000's	December 31, 2019	December 31, 2018
Related Party Loans - Insiders	550	550
Accrued interest [1]	253	169
Short term loans related parties	803	719

[1] For the year ended December 31, 2019, the Company recorded total interest expense of $84 thousand, (December 31, 2018 - $104 thousand, which includes $20 thousand in amortization of deferred loan costs)

Short Term Loans

In September 2016, the Company secured additional funding from a consortium of lenders ("**Consortium of Lenders**") in the amount of $2.5 million (the "**Additional Loans**") with interest accruing at the rate of 12% per annum and maturity date of March 31, 2018. Interest payment is due at maturity, thereby the Company includes accrued interest in the carrying value of the loan. In consideration for the additional funding, the lenders received the fraction of 0.12 common shares for each USD$1.00 of principal amount loaned to the Company which value was recorded as deferred loan costs and is accreted over the life of the loans to interest expense. The Additional Loans are measured at amortized cost to reflect the accretion of the share consideration paid, thereby the aggregation of accrued interest and accreted transaction costs results in an effective interest rate of 27.7%. The maturity of the Additional Loans has been extended to June 30, 2020.

The balance of Additional Loans is as follows:

US$000's	December 31, 2019	December 31, 2018
Additional Loans	2,475	2,475
Accrued interest [1]	1150	771
Additional Loans	3,625	3,246

[1] For the year ended December 31, 2019, the Company recorded total interest expense of $379 thousand (December 31, 2018 - $467 thousand, respectively, which includes $90 thousand in amortization of deferred loan costs).

11. LONG TERM LOAN RELATED PARTY

On August 9, 2016, the Company executed the Ninth Amending Agreement to the Loan Agreement with Vitol Energy (Bermuda) Ltd. which became effective August 19, 2016, in order to restructure the balances due under an existing term loan (the "**Term Loan**") into a new loan (the "**New Loan**") with a maturity date of March 31, 2018 (the "**Maturity Date**"). The New Loan was secured by first priority liens on the existing and future assets of the Company and the Guarantors. Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the New Loan had a principal balance of $41.1 million with interest accruing at the rate of 12% per annum. Interest was contractually due at maturity, thereby the Company included accrued interest in the carrying value of the loan.

The New Loan was subject to certain mandatory prepayments, carried no additional fees or transaction costs, and is measured at amortized cost resulting in an effective interest rate of 12%.

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

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

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

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

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 US$64,042,068 less the sum of US$584,000 converted to equity pursuant to a shares for debt conversion agreement dated effective April 24, 2020, totals US$63,458,068, was converted to principal (the "**Fourth Restructured Amount**"); (ii) the maturity date to repay all the obligations fee was deferred to June 25, 2020. See *Note 22 - Subsequent Events*. In the interim, the Company continues to work to generate sufficient cash flow to meet its forward operating working capital obligations.

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

US$000's	December 31, 2019	December 31, 2018
Long term loan related party	53,285	53,285
Accrued interest [(1)]	8,360	1,193
Quarterly repayments due in next 12 months [(2)]	(22,689)	(12,908)
Long term loan related party	38,956	41,570

[(1)] In connection with the Third Restructured Amount, the Company recorded interest expense of $7.2 million for the year ended December 31, 2019, compared to $1.2 million for the year ended December 31, 2018. See Note 14 – Interest Expense for the breakdown of Long Term Related Party interest expense.
[(2)] Relates to the aggregation of quarterly loan repayments due in 2020 which amounts were reclassified as Current portion of long term loan related party in the statements of financial position.

12. SHAREHOLDER'S EQUITY

Authorized Share Capital

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

As at December 31, 2019, the authorized share capital of the Company consists of 999,990,000 common shares at a par value of US $0.01 each and 100,000 preferred shares at a par value of US $0.001 each.

Common Shares

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

Common shares and paid-in capital continuity schedule:

Outstanding common shares *(US$000's, except for share numbers)*	Number of Common Shares	Amount
As at December 31, 2018	**17,980,781**	**104,410**
Issued during the period	-	-
As at December 31, 2019	**17,980,781**	**104,410**

Per Share Information

Per share loss *(US$000's, except for per share amounts)*	Year Ended December 31, 2019	2018
Weighted average number of common shares outstanding	17,980,781	17,980,781
Net Loss	(12,160)	(10,655)
Basic and diluted loss per share	($0.68)	($0.59)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the year that the equity instruments were outstanding. For the year ended December 31, 2019, no outstanding share options (December 31, 2018 – 76,500 share options) were excluded from calculating dilutive loss per share as they were anti-dilutive. As at December 31, 2019, and December 31, 2018, the Company did not hold any common shares in the treasury.

13. SHARE BASED COMPENSATION

The share-based compensation recorded by the Company is associated with share options and share-based cash-settled bonuses for employees and directors. Share-based compensation expenses for the year ended December 31, 2019, were ($181) thousand (December 31, 2018 – ($69) thousand).

(US$000's)	Year Ended December 31, 2019	2018
Share settled - Share options	-	24
Cash settled - Contingent bonus (1)	(18)	(32)
Cash settled - Cash bonus awards (1)	(167)	(61)
KECIP Units	4	-
Total Share based payments-Compensation	**(181)**	**(69)**

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

Share Options

As at December 31, 2019, all the exercisable options have been surrendered in the month of November 2019, and thus there are no exercisable options at the end of the period.

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

	December 31, 2019		December 31, 2018	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	76,500	7.35	177,000	14.85
Expired	-	-	(59,000)	32.00
Forfeited	-	-	(41,500)	4.66
Surrendered	(76,500)	7.35	-	-
Outstanding, end of period	-	-	76,500	7.35
Exercisable, end of period	-	-	44,000	10.64

As at December 31, 2019, the Company transferred the balance of Share-based payment reserve $5,613 thousand to Surplus as all the options were surrendered during the year.

Contingent Bonus

On January 12, 2015, the Company awarded the right to 50,049 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Company; or such earlier vesting date as determined by the board. Also, at the option of the board, the contingent bonus may be settled by the Company in cash at the settlement date, with the value of common share determined by the closing price of the Company's common shares at such settlement date. Except for a few, all the employees and consultants have signed a settlement agreement with Company to settle the Contingent bonus in cash @ 5% of the total amount to be paid.

Hence, the estimated liability for the contingent bonus at December 31, 2019, was $4 thousand (December 31, 2018 - $22 thousand). For the year ended December 31, 2019, the Company recorded a decrease of $18 thousand (December 31, 2018 – a decrease of $32 thousand) in the fair value of the contingent bonus liability.

Restricted Cash Bonus Program

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

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

Except for a few, all the employees have signed a settlement agreement with Company to settle the Full Value-Based Cash Bonus in cash @ 5% of the total amount to be paid.

The estimated FVBCB liability at December 31, 2019, was $57 thousand (December 31, 2018 - $184 thousand) in connection with 6,417 units outstanding at such date.

For the year ended December 31, 2019, the Company reversed 95% of the accrued liability $127 thousand, relating to employees and consultants who have signed the settlement agreement.

Fair Value Director Cash Bonus Program

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

Except for one, all the directors have signed a settlement agreement with Company to settle the Fair Value Director Cash Bonus Program in cash @ 5% of the total amount to be paid. The estimated FVDCB liability on December 31, 2019, was $4 thousand (December 31, 2018 - $41 thousand). For the year ended December 31, 2019, the Company recorded a decrease of $37 thousand (December 31, 2018 – a decrease of $61 thousand) in the fair value of the FVDCB liability.

Key Employee Contingent Incentive Plan Award

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

Except for one, all the Greenfields employees have signed a settlement agreement with Company to settle the KECIP Program in cash @ 5% of the total amount to be paid. Hence, the estimated KECIP liability at December 31, 2019 was $4 thousand (December 31, 2018 - Nil).

14. INTEREST EXPENSE

	Year Ended December 31,	
US$000's	2019	2018
Interest expense–long term loan (Restructured Amount) [1]	-	6,339
Interest expense – long term loan (Third Restructured Amount) [2]	7,167	1,193
Interest expense – short term loans [3]	463	571
Interest expense – lease liabilities [4]	160	-
	7,790	8,103

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

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

[3] Represents interest expense (including the amortization of deferred loan costs) related to the current short-term loans. The lenders agreed to extend the maturity of these loans from December 2018 to June 30, 2020.

[4] Interest payments in connection with the leasing of ROU assets. As a result of adopting IFRS 16, lease principal and interest payments are recorded as depreciation and interest expense in the consolidated statement of comprehensive loss.

15. SEGMENT INFORMATION

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

(US$000's)	December 31, 2019			December 31, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Current assets	6,969	3,460	10,429	10,679	157	10,836
Capital assets (1)	179,255	-	179,255	182,631	4	182,635
Total assets	186,224	3,460	189,684	193,310	161	193,471
Current liabilities	(8,326)	(31,294)	(39,620)	(6,276)	(22,356)	(28,632)
Non-current liabilities	-	(38,956)	(38,956)		(41,570)	(41,570)
Total liabilities	(8,326)	(70,250)	(78,576)	(6,276)	(63,926)	(70,202)

Capital expenditures

	Year ended					
(US$000's)	December 31, 2019			December 31, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Capital Expenditures	3,524	-	3,524	4,721	-	4,721

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Year ended					
(US$000's)	December 31, 2019			December 31, 2018		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Petroleum and natural gas (external)	28,613	-	28,613	30,962		30,962
Expenses						
Operating	23,718		23,718	23,359	-	23,359
Transportation	103	-	103	107		107
Administrative	-	(419)	(419)	-	3,606	3,606
Depreciation and amortization	9,566	3	9,569	6,477	2	6,479
	33,387	(416)	32,971	29,943	3,608	33,551
Losses from operating activities	(4,774)	416	(4,358)	1,019	(3,608)	(2,589)
Other Income and expense						
Interest income/(expense)	-	(7,790)	(7,790)		(8,103)	(8,103)
FX Gain/(Loss)	-	(12)	(12)		37	37
Net losses	(4,774)	(7,386)	(12,160)	1,019	(11,674)	(10,655)

Revenues

BEL's entitlement share of production from crude oil, natural gas and natural gas liquids (together with the "**Petroleum**") recognized as revenue represents its share of both cost recovery petroleum and profit petroleum and the allocation of SOA's 20% share of cost recovery petroleum as stipulated by the ERDPSA Carry 1 recovery provisions. For the years ended December 31, 2019, and 2018, the Company recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Year ended	
(US$000's)	31-12-2019	31-12-2018
BEL's share of Petroleum entitlement production	23,553	24,770
SOA's cost recovery Petroleum production	5,060	6,192
BEL's entitlement revenue	28,613	30,962

Protocol on Carry of SOA Certain Costs

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

On April 19, 2017, BEL and SOCAR signed a protocol in respect of the carry of certain costs (the "**Protocol**"), which addresses the shortfall by SOA in funding its 20% share of Petroleum Costs incurred under the ERDPSA since April 2014. Per the Protocol effective April 19, 2017, SOA's 20% share of Petroleum Costs is to be funded from: (i) SOA's entitlement share of profit petroleum; and (ii) proceeds from SOCAR's marketing of the 10% compensatory petroleum delivered at no charge to SOCAR by the ERDPSA, (together 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.

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.

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

Capital Expenditures

BEL's capital expenditures represent the aggregation of the BEL's 80% share of expenditures and the remaining portion of SOA expenditures funded by BEL. For the years ended December 31, 2019, and 2018, the Company recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Year ended December 31,	
(US$000's)	2019	2018
BEL's 80% share of capital expenditures	3,430	4,358
SOA's 20% share of capital expenditures	858	1,090
Less: Protocol Proceeds		
Profit petroleum	(153)	(101)
Value of SOCAR's Compensatory petroleum	(611)	(626)
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	94	363
Total capital expenditures	3,524	4,721

Operating costs

BEL's operating costs represent the aggregation of the BEL's 80% share of costs and the remaining portion of SOA's costs funded by BEL. For the years ended December 31, 2019, and 2018, the Company recognized operating costs from BEL's participation in the ERDPSA as follows:

	Year ended December 31,	
(US$000's)	2019	2018
BEL's 80% share of operating costs	21,743	21,708
SOA's 20% share of operating costs	5,436	5,427
Less: Protocol Proceeds		
Profit petroleum	(691)	(489)
Value of SOCAR's Compensatory petroleum	(2,769)	(3,034)
BEL's net overfunding of operating costs (SOA's funding deficiency)	1,975	1,904
BEL's net gain on sale of casing [(1)]	-	(253)
Total operating costs (net of IFRS 16 Lease expense reclass)	23,718	23,359

In relation to Protocol Proceeds, for the year ended December 31, 2019, the Company had a receivable balance of $0.7 million (December 31, 2018 - $0.7 million) consisting of uncollected Protocol Proceeds. See *Note 6 – Related Party Transactions*.

For the year ended December 31, 2019, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $2 million (compared to December 31, 2018 –$2.2 million). Per the Protocol, this net overfunding has been added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA carry recovery provisions. At December 31, 2019, the balance of Carry 1 is as follows:

(US$000's)	
Carry 1 - Opening Amount at January 1, 2019	33,717
SOA's share of capital expenditures funded by BEL	858
SOA's share of operating costs funded by BEL	5,436
Protocol Proceeds	(4,224)
SOA's share of cost recovery Petroleum production	(5,060)
Carry 1 - Outstanding Amount at December 31, 2019 [1]	30,727

[1] In accordance with the Bahar Joint Operating Agreement, the Carry 1 Ledger is maintained as a separate financing register by BEOC, reflecting the funding by BEL and reimbursements made by SOA from their share of cost recovery petroleum.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Net changes in working capital:

	Year Ended December 31,	
US$000's	2019	2018
Trade receivables	(2,322)	3,644
Receivables from related parties	2	235
Advances for operating activities	243	(363)
Prepaid expenses and deposits	(35)	118
Inventories	618	(769)
Accounts payable and accrued liabilities	357	(5,056)
Accounts payable related parties	252	585
Current portion long term loan related party	9,781	12,908
FVDCB Adjustment	37	-
Retention Bounus Adjustment	144	-
Unrealized FX on Make Whole Liability	(12)	-
Related to operating activities	9,065	11,302
Related to financial activities-lease liabilities	(1,067)	-
Related to investing activities-AP property & equipment	(3,524)	(2,142)

17. DEFERRED INCOME TAXES

The provision for income taxes differs from the result that would have been obtained by applying the U.S. federal income tax rate of 21% (21% in 2018) to the loss before income taxes. The difference results from the following items:

	Year Ended December 31,	
(US$000's)	2019	2018
Deferred income tax expense (recovery) per statements	-	-
Adjustments in respect to prior years	-	-
Deferred income tax expense (recovery) – current year	-	-

	Year Ended December 31,	
(US$000's)	2019	2018
Comprehensive gain(loss) before income taxes	(12,161)	(10,655)
U.S. federal corporate income tax rate	21%	21%
Expected income tax (recovery) expense computed at statutory rates	(2,554)	(2,237)
Add (deduct) the tax effect of:		
Non-taxable / deductible items	2	15
Acquisition transaction	-	-
Debt restructuring	-	-
Other	-	-
Deferred income tax (recovery) expense per calculation	(2,552)	(2,222)
Derecognition of deferred tax asset for current year	2,552	2,222
Deferred Income tax (recovery) expense per statements	-	-
Current year deferred income taxes consists of:		
Current tax (recovery)	(2,716)	(2,185)
Deferred tax (recovery)	164	(37)
Deferred Income tax (recovery) before tax asset derecognition	(2,552)	(2,222)
Deferred tax asset not brought to account	2,552	2,222
Deferred income tax expense (recovery)	-	-

Deferred Income Tax Asset

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

(US$000's)	Recognized in profit or loss	Recognized in equity	Total
As at December 31, 2017	(3,361)	-	(3,361)
Derecognition of deferred tax asset	3,361	-	3,361
As at December 31, 2017 after derecognition	-	-	-
As at December 31, 2018	(2,222)	-	(2,222)
Derecognition of deferred tax asset	2,222	-	2,222
As at December 31, 2018 after derecognition	-	-	-
As at December 31, 2018	(2,552)	-	(2,552)
Derecognition of deferred tax asset	2,552	-	2,552
As at December 31, 2019 after derecognition	-	-	-

At December 31, 2019, the Company has cumulative loss carry-forwards of approximately $68.5 million, of which losses amounting to $45.20 million will expire between the years 2034 and 2038. (Losses after 01.01.2018 are allowed indefinite carry-forward as per the Tax Cuts and Jobs Act of 2017.) The Company elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured. There is no change in the Federal Income tax rate compared to 2018.

18. EXPENSES BY NATURE

Administrative expenses

	Year ended December 31	
(US$000's)	**2019**	**2018**
Employee wages and benefits	1,279	1,589
Professional service costs	387	1,352
Office, travel and other	90	734
Share-based payment expense	184	(69)
	1,940	3,606
Expenses written back	(2,359)	-
Total expenses by nature	(419)	3,606

Expenses written back includes amounts reversed due to settlement agreement signed at 5% by employees and consultants. This includes reversal of severance pay, make-whole provision, contingent bonus, restricted cash bonus program, and fair value director cash bonus program.

19. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2019:

US$000's	**2020**	**2021**	**Total**
Loan - principal [(1)]	25,714	30,595	56,309
Loan - interest [(2)]	1,403	11,326	12,729
Loan - restructuring fees [(3)]	1,414	-	1,414
Total Contractual Commitments	28,531	41,921	70,452

(1) Represents outstanding principal for short term loans which maturity was extended to June 30, 2020. Also, it represents long term loan contractual principal payment obligations in 2020 and at the maturity date of January 31, 2021. Per October 31, 2018, the Thirteenth Amending Agreement, the maturity of this loan was extended until January 31, 2021.
(2) Represents the interest accrued upon the long term and the short term loan mentioned in (1) above.
(3) Represents a 3% restructuring fee on the Restructured Amount per the 12th Amending Agreement with the Lender. Per subsequent agreements with the Lender, payment of this fee was deferred until June 25, 2020. See *Note 22 - Subsequent Events*.

Lease commitments

The Company has the following estimated annual obligations related to various leases. The minimum future payments for these leases are as follows:

US$000's	**2020**
Office lease payments [4]	17
ROU assets – lease payments [5]	135
Total Lease Commitments	152

(4) The Company has leased office space for its corporate headquarters in the United States through December 31, 2020.
(5) Includes principal and interest payments in connection with the leasing of ROU assets. As a result of adopting IFRS 16, lease principal and interest payments are recorded as amortization and interest expense in the consolidated statements of comprehensive loss.

The following table reconciles the Company's lease commitments disclosed as at December 31, 2018, with lease obligations recognized on the Company's statement of financial position at January 1, 2019, and December 31, 2019.

US$'000s	**Lease Commitments**
As disclosed at December 31, 2018	24
Short-term leases	(24)
Leases identified as at January 1, 2019	740
Discounting impact	(95)
Lease liability recognized at January 1, 2019	645
Additions	557
Payments	(1,067)
Lease liability recognized at December 31, 2019	135

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

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

a) *Credit risk*

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

As at December 31, 2019, the Company's accounts receivable primarily consists of receivables from crude oil and natural gas sales to SOCAR. At December 31, 2019, receivables from invoiced crude oil and natural gas sales had an average of 60 days outstanding. All receivable balances (including accruals of crude oil and natural gas lifted at December 31, 2019) are considered by management to be collectible.

Cash and cash equivalents consist of bank deposits held in major United States banks for corporate activities and cash held by BEOC in Azerbaijan for operating activities. Cash held in bank accounts is exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions for corporate accounts in the United States and for BEOC operating accounts in Azerbaijan. The Company's maximum exposure to credit risk at December 31, 2019, and December 31, 2018, is as follows:

US$000's	December 31, 2019	December 31, 2018
Cash and cash equivalents	128	565
Accounts receivable	7,377	5,058
Accounts receivable related party	681	683
Advances for operating activities	950	1,193
	9,136	7,499

b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual conditions, without incurring unacceptable costs, relinquishment of properties, or risking harm to the Company's reputation. However, the Company believes it is in a position to generate sufficient cash flow to meet its forward operating working capital obligations. See also *Note 2 – Basis of Presentation and Going Concern.*

The Company may raise additional capital through debt and the issuance of shares to meet its funding requirements.

The Company's financial liabilities as at December 31, 2019, and December 31, 2018, arose primarily from corporate obligations and payables incurred by BEOC. Payment terms on accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest. The settlement of accounts payable is also subject to agreements for its minority debt obligations, as stated in its press release of October 29, 2019, by the end of the year 2019. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	December 31, 2019			December 31, 2018
US$000's	Within 1 year	Within 1 – 3 years	Total	Total
Accounts payable and accrued liabilities (1)	9,480	-	9,480	9,124
Accounts payable related parties (2)	2,887	-	2,887	2,635
Lease liabilities (3)	135	-	135	-
Loan - principal (4)	25,714	30,595	56,309	56,309
Loan - interest (5)	1,403	11,326	12,729	12,636
	39,619	41,921	81,540	80,704

(1) As at December 31, 2019, and December 31, 2018, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.
(2) Accounts payable related parties consist of obligations with Vitol's subsidiaries. The amount includes $1.4 million in loan restructuring fees and $1.5 million in technical consulting fees. Effective December 31, 2018, under a new amending agreement with the Lender, payment of the loan restructuring fee was extended until June 25, 2020. See Note 22 - Subsequent Events.
(3) Includes principal and interest payments in connection with the leasing of ROU assets. As result of adopting IFRS 16, lease principal and interest payments are recorded as depreciation and interest expense in the consolidated statements of comprehensive loss.
(4) Represents outstanding principal for short term loans. Maturity was extended to June 30, 2020. Also, represents principal for long term loans maturing January 31, 2021. See *Note 11 – Long Term Loan Related Party*.
(5) Represents the interest accrued upon the long term and the short term loan mentioned in (4) above

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar, and the Company holds almost all of its excess cash in United States dollars. As at December 31, 2019, and December 31, 2018, the Company had no forward exchange contracts in place.

d) Commodity price risk

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

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

As at December 31, 2019, and December 31, 2018, the Company has no outstanding financial instruments, financial derivatives, or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) *Interest rate risk*

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

21. CAPITAL STRUCTURE AND MANAGEMENT

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

Composition of the Company's capital structure

US$000's	December 31, 2019	December 31, 2018
Working Capital deficit	(29,191)	(17,796)
Long term debt and shareholders' equity (Does not include current portion of long term debt)(1)	150,064	164,839
Ratios of working capital deficit to long term debt and shareholders' equity	-19%	-11%

(1) Increase in ratios of working capital deficit to long term debt and shareholders' equity is mainly due to $9.8 million moved to the current portion of long term debt within current liabilities.

22. SUBSEQUENT EVENTS

Extension of Debt Payment

On March 27, 2019, Vitol and the Corporation entered into a limited forbearance, deferral and reservation of rights agreement pursuant to which Vitol the Company's senior debt lender, has agreed to further amend the forbearance agreement executed on November 28, 2019, and previously amended on January 3, 2020, and March 16, 2020 (the "Forbearance Agreement"), by extending the forbearance period and deferred payments due under the senior secured loan agreement with the Company (the "Vitol Loan") until April 30, 2020.

On April 30, 2020, Vitol and the Corporation entered into a Fourteenth Amendment Agreement in which it is agreed that as of the Fourteenth Amendment Effective Date i.e. May 8, 2020, all amounts owed to Vitol under the Loan Agreement, including principal, deferred Obligations and accrued and unpaid interest, total US$64,042,068, less the sum of US$584,000 converted to equity pursuant to a shares for debt conversion agreement dated effective April 24, 2020, totals US$63,458,068. The maturity date to repay all the obligations is deferred to June 25, 2020.

The Company signed the deferral letters with short term lenders to extend maturity until June 30, 2020.

On April 13, 2020, Bahar Energy Limited and SOCAR signed a six-year extension to the Protocol from April 19, 2017, extending the period of recovery to April 19, 2023.

COVID-19 Pandemic

The impact of the COVID-19 pandemic has been significant in the resource industry. Most notably, the work is being done using physical distancing guidelines.

The COVID-19 pandemic is present in the country in which the Company operates, with cases being reported in Azerbaijan. At this time, the Company has activated business continuity practices across the site. Management will continue to monitor developments across the jurisdiction and will adjust its planning as necessary. An outbreak of the pandemic may have going concern consequences on the business.