GREENFIELDS PETROLEUM CORPORATION

Condensed Consolidated Financial Statements

(Unaudited)

June 30, 2017

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

	Notes	As at June 30, 2017	As at December 31, 2016
Assets			
Current Assets			
Cash and cash equivalents		2,173	1,361
Accounts receivable	3	10,016	8,776
Advances for operating activities		1,861	802
Prepaid expenses and deposits		167	70
Inventories	5	1,076	1,239
		15,293	12,248
Non-Current Assets			
Property and equipment, net	7	185,881	187,093
		201,174	199,341
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	8	14,000	13,692
Short term loans related party	9	45,971	-
Short term loans	9	2,458	-
		62,429	13,692
Non-Current Liabilities			
Long term loans related party		-	43,449
Long term loans		-	2,168
Warrants	11	306	546
		306	46,163
Shareholders' Equity	12		
Common shares		180	157
Paid in capital		104,230	100,852
Share-based payments reserve	13	5,557	5,508
Surplus		28,472	32,969
Total Shareholders' Equity		138,439	139,486
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 17)		201,174	199,341

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Petroleum and natural gas *(Note 15)*	6,818	-	16,056	-
Management service fees	-	275	-	609
	6,818	275	16,056	609
Expenses				
Operating *(Note 15)*	4,461	-	8,924	-
Impairment of accounts receivable *(Note 4)*	534	-	2,381	-
Marketing and transportation	30	-	58	-
Administrative	1,010	994	1,624	2,044
Depreciation and amortization *(Note 7)*	2,481	-	4,975	1
	8,516	994	17,962	2,045
Loss from operating activities	(1,698)	(719)	(1,906)	(1,436)
Income on investment in joint venture *(Note 6)*	-	394	-	651
Interest income *(Note 14)*	-	732	-	1,465
Interest expense *(Note 14)*	(1,422)	(3,030)	(2,813)	(5,731)
Foreign exchange gain(loss)	(13)	72	(18)	(1,102)
Change in fair value of warrants *(Note 11)*	4	-	240	-
Net loss	(3,129)	(2,551)	(4,497)	(6,153)
Total comprehensive loss	(3,129)	(2,551)	(4,497)	(6,153)
Per share				
Loss per share, basic and diluted *(Note 12)*	($0.02)	($0.12)	($0.03)	($0.28)

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

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Common shares *(Note 12)*		
Balance, beginning of period	157	22
Issued pursuant to private placements	21	-
Issued in satisfaction of debt	2	-
Balance, end of period	180	22
Paid in capital		
Balance, beginning of period	100,852	76,935
Issued pursuant to private placements	3,041	-
Issued in satisfaction of debt	337	-
Balance, end of period	104,230	76,935
Share-based payments reserve *(Note 13)*		
Balance, beginning of period	5,508	5,466
Share-based payments	49	24
Balance, end of period	5,557	5,490
Surplus (Deficit)		
Balance, beginning of period	32,969	(66,224)
Loss for the period	(4,497)	(6,153)
Balance, end of period	28,472	(72,377)
Total Shareholders' Equity	138,439	10,070

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating Activities				
Net loss	(3,129)	(2,551)	(4,497)	(6,153)
Items not affecting cash:				
Third party share-based payments *(Note 13)*	30	-	30	-
Share-based compensation *(Note 13)*	36	29	15	38
Depreciation and amortization	2,481	-	4,975	1
Impairment of accounts receivable *(Note 4)*	534	-	2,381	-
Income on investment in joint venture *(Note 6)*	-	(394)	-	(651)
Interest income *(Note 14)*	-	(732)	-	(1,465)
Interest expense *(Note 14)*	1,422	3,030	2,813	5,731
Unrealized foreign exchange (gain)loss	12	(73)	16	1,102
Change in fair value of warrants *(Note 11)*	(4)	-	(240)	-
Cash Provided by (Used in) operating activities before changes in non-cash working capital	1,382	(691)	5,493	(1,397)
Change in non-cash operating working capital *(Note 16)*	(3,804)	213	(6,328)	727
Cash Used in Operating Activities	(2,422)	(478)	(835)	(670)
Financing Activities				
Proceeds from issue of common shares *(Note 12)*	3,062	-	3,062	-
Proceeds from short term loans	-	-	70	7,000
Cash Provided by Financing Activities	3,062	-	3,132	7,000
Investing Activities				
Restricted cash	-	-	-	(6,000)
Property and equipment	(353)	-	(1,479)	-
Cash Used in Investing Activities	(353)	-	(1,479)	(6,000)
Effect of exchange rates on changes on cash	(5)	-	(6)	(2)
Increase (Decrease) in Cash and Cash Equivalents	282	(478)	812	328
Cash and Cash Equivalents, beginning of period	1,891	906	1,361	100
Cash and Cash Equivalents, end of period	2,173	428	2,173	428

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

1. INCORPORATION AND NATURE OF OPERATIONS

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

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

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

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**"). The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based compensation transactions which are measured at fair value.

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

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2016, prepared in accordance with *International Financial Reporting Standards* ("**IFRS**") as issued by the *International Accounting Standards Board **("IASB")***. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016.

These condensed consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on August 24, 2017.

The Company is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment is dependent upon its ability to complete the development of properties which includes meeting the related financing requirements. For the three and six months ended June 30, 2017, the Company reported a loss of $3.1 million and $4.5 million, respectively, (June 30, 2016 – loss of $2.6 million and $6.2 million, respectively) and has an accumulated surplus of $28.5 million as at June 30, 2017. However, the Company has a negative working capital balance of approximately $47.1 million as at June 30, 2017. 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 issuance of equity on favorable terms; collecting amounts due the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

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

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

These condensed 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. 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 June 30, 2017, the Company had the following outstanding accounts receivable balances:

(US$000's)	June 30, 2017	December 31, 2016
Petroleum	2,682	2,089
Natural gas	6,585	6,488
Other receivables [1]	749	199
	10,016	8,776

[1] Includes value of SOA reimbursement to BEL through entitlement profit petroleum and compensatory petroleum under protocol addressing SOA cash shortfalls in funding, value added taxes paid in advance on natural gas sales, other employee and miscellaneous receivables.

4. RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2017, the Company recorded $nil (June 30, 2016 - $0.3 million and $0.6 million, respectively) in management service fees associated with services provided at cost to BEL and BEOC before the Acquisition. The related party receivables resulting from such management service fees have been eliminated in consolidation.

Impairment of Receivable from SOA

On March 31, 2014, BEOC achieved Target Production Rate 2 ("**TPR2**") as defined in Article 3.5 "Special Provisions for Carrying SOA's Participating Interest" of the ERDPSA. Upon achieving TPR2, SOA became obligated to begin funding their 20% share of the Contract Rehabilitation Area starting the second quarter of 2014, thereby relieving BEL of the obligation to carry SOA's 20% share of petroleum costs under Carry

1 provisions of the ERDPSA. With TPR2 met by the operating company, both BEL and SOA, as contractors to the ERDPSA, are obligated under the Joint Operating Agreement ("**JOA**") to fund their proportionate share of petroleum costs through cash calls issued by the operating company. However, SOA failed to fund any cash calls issued by the operating company subsequent to TPR2 achievement. Per the JOA, any contractor party failing to fund its participating interest shall be in default and the non-defaulting contractor party shall contribute their proportional amount in default; in this case BEL would be obligated to fund 100% of the SOA defaulted amount. In consequence, the amounts funded by BEL for the account of SOA results in the overfunding of its proportionate share of petroleum costs and an underfunding by SOA. The remedy of the contractual default by SOA is to make payment of the default amount to the operating company, which in turn has a responsibility to reimburse BEL for the overfunding.

On April 19, 2017, BEL and SOCAR signed a protocol in respect of the carry of certain costs and related issues (the "**Protocol**") which addresses the shortfall by SOA in funding its 20% share of petroleum costs expenditures incurred under the ERDPSA since April 2014. In accordance with the Protocol, which is effective April 19, 2017, SOA's 20% share of petroleum costs will be funded from SOA's entitlement share of profit petroleum revenues and revenues generated from the sale of SOCAR's compensatory petroleum. Any funding deficiencies in SOA's cash call payments will be borne by BEL and added to the outstanding Carry 1 balance which will subsequently be reimbursed in accordance with the terms of the ERDPSA through payment of SOA's share of cost recovery petroleum revenues to BEL.

In relation to SOA's 20% share of petroleum costs, as at June 30, 2017 the Company recorded $3.1 million (December 31, 2016 - $2.9 million), in related party receivables from SOA due to BEL's overfunding of $1.8 million and $1.3 million during the first and second quarter of 2017, respectively.

In accordance with the Protocol, BEL's overfunding during the first quarter 2017 was added to the balance of Carry 1. As this overfunding will be reimbursed to BEL through payment of SOA's share of cost recovery petroleum revenues, the Company recorded an impairment provision of $1.8 million for the period to offset the SOA related party receivable.

In relation to BEL's overfunding of $1.3 million during the second quarter 2017, the Company recognized SOA's funding of $0.8 million from SOA's entitlement share of profit petroleum revenues and revenues generated from the sale of SOCAR's compensatory petroleum; and recorded an additional impairment provision of $0.5 million for the amount added during the period to the balance of Carry 1.

For the three and six months ended June 30, 2016, the Company recorded impairment of accounts receivable of $0.5 million and $2.4 million, respectively (June 30, 2016 - $nil).

5. INVENTORIES

As at June 30, 2017, the Company had operating inventories of $1.1 million (December 31, 2016 - $1.2 million) consisting of spare parts, consumables, lubricants and fuel. Prior to the Acquisition, inventories from Bahar Energy were included in the carrying value of the Investment in Joint Venture under the equity method of accounting.

6. INVESTMENT IN JOINT VENTURE

Before the Acquisition, Bahar Energy had met the definition of a Joint Venture and therefore the Company's 33.33% interest was disclosed as a Joint Venture and accounted for using the equity method. As result of the Acquisition, Bahar Energy became a wholly-owned subsidiary of the Company ending the equity method of accounting treatment. For the three and six months ended June 30, 2017, the Company recorded $nil (June 30, 2016 - $0.4 million and $0.7 million, respectively) in relation to income on investment in joint venture.

7. PROPERTY AND EQUIPMENT, NET

(US$000's)	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2016	191,102	346	191,448
Additions	3,763	-	3,763
As at June 30, 2017	194,865	346	195,211
Accumulated DD&A			
As at December 31, 2016	4,019	336	4,355
Additions	4,974	1	4,975
As at June 30, 2017	8,993	337	9,330
Net property and equipment			
As at December 31, 2016	187,083	10	187,093
As at June 30, 2017	185,872	9	185,881

Legal title to property and equipment

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	June 30, 2017	December 31, 2016
Trade accounts payable [1]	12,254	11,660
Accrued liabilities	1,746	2,032
	14,000	13,692

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

9. SHORT TERM LOANS

Short Term Loans Related Party

On August 9, 2016, the Company executed the Ninth Amending Agreement to the Loan Agreement with Vitol Energy (Bermuda) Ltd. ("**Vitol**") which became effective August 19, 2016, in order to restructure the balances due under an existing term loan (the "**Term Loan**") into a new loan (the "**New Loan**") with maturity date of March 31, 2018 (the "**Maturity Date**"). The New Loan is secured by first priority liens on the existing and future assets of the Company and the Guarantors. The New Loan, initially classified as long term loan in the Consolidated Statement of Financial Position through year end 2016, has been reclassified as short term due to its March 31, 2018 maturity date.

Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the New Loan has a principal balance of $41.1 million with interest accruing at the rate of 12% per annum. Interest is contractually due at maturity, thereby the Company includes accrued interest in the carrying value of the loan shown in the Condensed Consolidated Statement of Financial Position. The New Loan is subject to certain mandatory prepayments, carries no additional fees or transaction costs and is measured at amortized cost resulting in an effective interest rate of 12%.

As result of the common shares issued to Vitol in consideration for the Term Loan restructuring, Vitol became a controlling insider of the Company with ownership of 49.1% of the issued and outstanding common shares, thereby making Vitol a related party.

In September 2016, the Company secured additional funding of $550 thousand from five insiders of the Company (the "**Related Party Loans – Insiders**") with the same interest rate, interest payment terms and maturity date as the New Loan. In consideration for the additional funding, the lenders received 1.2 Common Shares for each USD$1.00 of principal amount loaned to the Company which value is accreted over the life of the loans. 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%.

On March 16, 2017, the Company entered into the Tenth Amending Agreement to the Loan Agreement to facilitate deferral of loan prepayment obligations. Consequently, prepayment obligations of $500 thousand due on March 31, 2017 and $1.0 million due on June 30, 2017, were deferred until the earlier of the Maturity Date or voluntary prepayment. These deferred prepayment obligations will accrue additional interest at 8% per annum. The balance of the short term loans related party is as follows:

US$000's	June 30, 2017	December 31, 2016
New Loan - Vitol	41,148	41,148
Related Party Loans - Insiders	550	550
Unamortized share consideration	(57)	(88)
Carrying value of short term loans related party	41,641	41,610
Accrued Interest (1)	4,330	1,839
Short term loans related party (2)	45,971	43,449

(1) For the three and six months ended June 30, 2017, the Company recorded interest expense and accretion of $1.3 million and $2.5 million, respectively (June 30, 2016 - $nil)
(2) The short term loans related party were classified as long term loans related party in the Consolidated Statement of Financial Position at December 31, 2016. The balances of these loans were reclassified to short term due to their March 31, 2018 maturity date.

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 Loan Agreements**" or "**Additional Loans**"). The Additional Loans are subject to the same terms as the Related Party Loans - Insiders described above and received the same share consideration. As a result, the Additional Loans are also measured at amortized cost to reflect the accretion of the share consideration. The aggregation of accrued interest and accreted transaction costs results in the same effective interest rate of 27.7% as the Related Party Loans - Insiders. The balance of Additional Loans is as follows:

US$000's	June 30, 2017	December 31, 2016
Additional Loans	2,475	2,475
Unamortized share consideration	(255)	(397)
Carrying value of short term loans	2,220	2,078
Accrued interest (3)	238	90
Additional Loans (4)	2,458	2,168

(3) For the three and six months ended June 30, 2017, the Company recorded interest expense and accretion of $149 thousand and $291 thousand, respectively (June 30, 2016 - $nil)

(4) The Additional Loans at December 31, 2016 were classified as long term loans in the Consolidated Statement of Financial Position. These loans were reclassified as short term due to their March 31, 2018 maturity date.

10. SETTLEMENT OF CONVERTIBLE DEBENTURES

On August 18, 2016, the Company obtained the approval of debentureholders for the conversion of the CAD$23.7 million in outstanding principal debentures and accrued interest into 1,397 common shares for each CAD$1,000 face value debenture. The debentures were delisted from the TSXV on August 25, 2016 and the debenture conversion was completed on August 26, 2016 with a total of 33,143,825 common shares issued to former debentureholders at a price of CAD$0.30 (USD$0.23) per common share.

For the three and six months ended June 30, 2017, the Company recorded interest expense of $nil (June 30, 2016 - $0.8 million and $1.6 million, respectively) for the convertible debentures.

11. WARRANTS

Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the Company issued 85,979,917 Common Share Purchase Warrants (the "**Warrants**") to the lenders under the Vitol loan.

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

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

	June 30, 2017	December 31, 2016
Market price per common share – CAD$	0.18	0.29
Risk-free interest rate	1.10%	0.73%
Expected life – years	5	5
Expected volatility	86%	82%
Estimate of common shares issuable at exercise	4,366,971	4,366,971

As at June 30, 2017, the estimated liability for the warrants expected to vest was $306 thousand (December 31, 2016 - $546 thousand). This liability is fair valued at each reporting date with adjustments recorded through profit and loss. For the three and six months ended June 30, 2017, the Company recorded decreases of $4 thousand and $240 thousand, respectively, in the fair value of warrants expected to vest.

In connection with the private placements completed by the Company during the second quarter of 2017, the lenders under the Vitol Loan waived their rights to the vesting warrants relative to the new common shares issued to the investors.

12. SHAREHOLDER'S EQUITY

Authorized Share Capital

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

Common Shares

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

Preferred Shares

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

There were no preferred shares issued and outstanding at June 30, 2017 and December 31, 2016.

Common shares and paid in capital continuity schedule:

Outstanding common shares *US$000's, except for share amounts*	Number of Common Shares	Amount
As at December 31, 2016	156,859,180	101,009
Issued pursuant to private placements	20,656,831	3,062
Issued in satisfaction of debt	2,291,801	339
As at June 30, 2017	179,807,812	104,410

Per Share Information

Per share loss				
(US$000's, except for share and per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average number of common shares outstanding	159,317,633	22,105,438	132,900,196	22,105,438
Loss for the period	(3,129)	(2,551)	(4,497)	(6,153)
Basic and diluted loss per share	($0.02)	($0.12)	($0.03)	($0.28)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period that the equity instruments were outstanding. For the six months ended June 30, 2017, 1,770,000 outstanding share options and 85,979,917 outstanding warrants (June 30, 2016 – 1,183,333 share options) were excluded from calculating dilutive loss per share as they were anti-dilutive. As at June 30, 2017 and December 31, 2016, the Company did not hold any common shares in treasury.

Private Placements

On May 12, 2017, the Company completed a non-brokered private placement of 2,398,630 common shares of the Company at a price of CAD$0.20 per share (USD$0.146) for aggregate gross proceeds of $350 thousand. This placement included the participation of insiders of the Company to whom a total of 1,198,630 common shares of the Company were issued for proceeds of $175 thousand.

Also, on June 27, 2017, the Company completed a brokered private placement of 18,258,201 common shares of the Company at a price of CAD$0.20 per share (USD$0.148) for aggregate gross proceeds of $2.7 million. For the three and six months ended June 30, 2017, the Company recorded $120 thousand in brokerage fees (June 30, 2016 - $nil).

In connection with these private placements, the lenders waived their rights to the vesting warrants relative to the new common shares issued to the investors.

Common shares issued in satisfaction of debt

On June 27, 2017, the Company executed a debt settlement agreement with certain employees and consultants of the Company. Through this settlement the Company issued a total of 2,291,801 common shares of the Company in satisfaction of balances payable in the amount of $339 thousand. The common shares were issued at the deemed price of CAD$0.20 (USD$0.148) per common share.

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13. SHARE BASED PAYMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2017	2016	2017	2016
Third party services - share settled	30	-	30	-
Share-based compensation – Employees and Directors				
Share settled - Share options	20	10	49	24
Cash settled - Contingent bonus [(1)]	(2)	17	(39)	12
Cash settled - Cash bonus awards [(1)]	18	2	5	2
Subtotal	36	29	15	38
Total share-based payments	66	29	45	38

[(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.

The share-based payments recorded by the Company are associated with share settled third party services, share options and share-based cash settled bonuses for employees and directors. Share-based payment expenses for the three and six months ended June 30, 2017 were $66 thousand and $45 thousand, respectively (June 30, 2016 - $29 thousand and $38 thousand, respectively).

Share Options

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

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

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

Risk-free interest rate range	0.5% - 2%
Expected life range	1.1 - 5.0 years
Expected volatility range	40% - 87%
Weighted average forfeiture rate	1.3%
Weighted average fair value	$1.36

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

Continuity of Stock Options

	June 30, 2017		December 31, 2016	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	1,120,000	2.09	1,187,083	2.27
Granted	650,000	0.29	400,000	0.24
Surrendered	-	-	-	-
Expired	-	-	(400,000)	0.35
Forfeited	-	-	(67,083)	3.10
Outstanding, end of period	1,770,000	1.49	1,120,000	2.09
Exercisable, end of period	820,000	2.89	791,250	2.87

On October 13, 2016, the Company granted options to acquire 400,000 common shares of the Company pursuant to its stock option plan to two contractors. The options are exercisable at a price of CAD$0.24 per share, the closing price on October 12, 2016, and vest 25% on the date of the grant and 25% on each of the first, second and third anniversaries of the grant date. The options will expire five years from the grant date.

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

The exercise prices of the outstanding share options ranges from CAD$0.24 to CAD$6.50 per common share with all options expiring on various dates between years 2018 and 2022. The exercisable options as at June 30, 2017 have remaining contractual lives up to 4.5 years.

For the three and six months ended June 30, 2017, the Company recorded share options expense of $20 thousand and $49 thousand, respectively (June 30, 2016 - $10 thousand and $24 thousand, respectively). The share options expense is offset to the Company's share-based payment reserve.

Contingent Bonus

On January 12, 2015, the Company awarded the right to 500,490 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Company; or such earlier vesting date as determined by the board. Also at the option of the board, the contingent bonus may be settled by the Company in cash at the settlement date, with the value of common share determined by the closing price of the Company's common shares at such settlement date. At the award date, these rights were valued at the price of CAD$0.28 (USD$0.21) for a total share award expense of $103 thousand which was accrued as a contingent liability. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss.

The estimated liability for the contingent bonus at June 30, 2017 was $69 thousand (December 31, 2016 - $108 thousand). For the three and six months ended June 30, 2017, the Company recorded a decrease of $2 thousand and $39 thousand (June 30, 2016 – increase of $17 thousand and $12 thousand, respectively) in the fair value of the contingent bonus liability.

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

Restricted Cash Bonus Program

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

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

On January 20, 2015, the Company awarded 107,866 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 94,533 units vesting on January 1, 2015 (the "**Original Vesting Date**"). The deferral bonus units originally had a vesting date of January 1, 2016 (the "**Deferral Vesting Date**") and would be settled at the share price of the Company's common share on either the Original Vesting Date or the Deferral Vesting Date, whichever share price was higher. The Deferral vesting date for both awards has been further deferred until the first to occur of the following: January 1, 2018; the date of a change of control of the company; or such earlier Deferred Vesting Date as determined by the board. The estimated FVBCB liability at June 30, 2017 was $184 thousand (December 31, 2016 - $184 thousand).

The ABCB incentive awards vest in four tranches, 25% at grant date and 25% on each January 1 of the year immediately following the grant date. The ABCB awards have a contractual life of five years and were fair valued using the Black-Scholes option pricing model assuming an average risk-free interest rate of 1.09%, two year expected life from its vesting date, average expected volatility of 58% and average forfeiture rate of 13%. The estimated ABCB liability is amortized over the vesting period and fair valued at each reporting date with the same Black-Scholes pricing model with adjustments recorded through profit and loss. The estimated ABCB liability at June 30, 2017 was $nil (December 31, 2016 - $nil).

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

Grant Date	FVBCB Units	ABCB Units	ABCB Units: Grant Price $CAD	ABCB Units: Exercisable	ABCB Units: Expiration Date	ABCB Units: Remaining Contractual Life - Years
June 4, 2012	38,334	(1)	-	-	-	-
Sept. 4, 2012	3,333	(1)	-		-	-
Oct. 5, 2012	6,667	30,000	5.30	30,000	Oct. 5, 2017	0.3
Dec. 1, 2012	1,200	3,600	4.80	3,600	Dec. 1, 2017	0.4
Dec. 24, 2012	90,000	160,000	3.50	160,000	Dec. 24, 2018	1.5
Jan.1, 2015	107,866	-	-	-	-	-
	247,400	193,600		193,600		

(1) A total of 132,500 ABCB units expired on June 4, 2017.

For the three and six months ended June 30, 2017, the Company recorded restricted cash bonus expense of $nil (June 30, 2016 – $2 thousand and $2 thousand, respectively).

Fair Value Director Cash Bonus Program

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

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

The estimated FVDCB liability at June 30, 2017 was $103 thousand (December 31, 2016 - $98 thousand). This liability is fair valued at each reporting date with adjustments recorded through profit and loss. For the three and six months ended June 30, 2017, the Company recorded increases of $18 thousand and $5 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 11,025,000 KECIP units with the cash settlement value of a bonus unit equal to the same amount a shareholder receives for a common share if a monetization event occurs. A monetization event means: (1) the acquisition by a third party of all or substantially all the shares of the Company; (2) an amalgamation, arrangement, merger or other consolidation of the Company with another company; (3) a liquidation, dissolution or winding-up of the Company; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Company.

The KECIP program does not grant any entitlement to common shares or other equity interest in the Company. The KECIP units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. On May 12, 2017, the Company awarded an additional 730,000 KECIP units with similar vesting conditions to two employees and a contractor.

No expense has been recorded for the issuance of the KECIP units as of June 30, 2017, as the related cash settlement value can only be determined when a monetization event takes place.

Share-based payments reserve

US$000's	Amount
Balance December 31, 2016	5,508
Stock options share-based payments	49
Balance June 30, 2017	5,557

14. INTEREST INCOME AND INTEREST EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2017	2016	2017	2016
Interest income [(1)]	-	732	-	1,465
Interest expense – short term loan [(2)]	-	(1,591)	-	(2,909)
Interest expense – convertible debentures [(3)]	-	(816)	-	(1,575)
Interest expense – long term loan [(4)]	-	(623)	-	(1,247)
Interest expense – short term loans [(5)]	(1,422)	-	(2,813)	-
	(1,422)	(2,298)	(2,813)	(4,266)

(1) Interest income charged to Bahar Energy in connection with default loans. The accumulated interest on default loans was included as consideration paid for the Acquisition on August 9, 2016. Therefore, the related account receivable balance was extinguished.
(2) Interest expense on short term loan includes interest and amortization of transaction costs. The accumulated interest on short term loan was included as part of the restructuring transaction dated August 19, 2016. Therefore, the related interest payable balance was extinguished.
(3) Interest expense on convertible debentures included accretion, coupon interest, amortization of transaction costs, and interest on defaulted payments. The accumulated interest on convertible debentures was included as part of the debentures conversion dated August 26, 2016. Therefore, the related interest payable balance was extinguished.
(4) Includes interest expense on long term loan-2 and interest expenses on long term loans post restructuring. The accumulated interest payable on long term loan-2 was included as part of the loan settlement transaction dated September 9, 2016, therefore the related account payable balance was extinguished.
(5) Represents interest and accretion expense related to the current short term loans.

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.

Total Assets and Liabilities

(US$000's)	June 30, 2017			December 31, 2016		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	12,979	2,314	15,293	11,781	467	12,248
Non-current assets	-	-	-	-	-	-
Capital assets	185,873	8	185,881	187,084	9	187,093
Total assets	198,852	2,322	201,174	198,865	476	199,341
Current liabilities	(12,079)	(50,350)	(62,429)	(11,438)	(2,254)	(13,692)
Non-current liabilities	-	(306)	(306)	-	(46,163)	(46,163)
Total liabilities	(12,079)	(50,656)	(62,735)	(11,438)	(48,417)	(59,855)

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Capital Expenditures

	Three Months Ended					
(US$000's)	June 30, 2017			June 30, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	1,716	-	1,716	-	-	-

	Six Months Ended					
(US$000's)	June 30, 2017			June 30, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	3,763	-	3,763	-	-	-

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Three Months Ended					
(US$000's)	June 30, 2017			June 30, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Petroleum and natural gas (1)	6,818	-	6,818	-	-	-
Management services fees	-	-	-	-	275	275
	6,818	-	6,818	-	275	275
Expenses (1)						
Operating	4,461	-	4,461	-	-	-
Impairment of accts receivable	534	-	534	-	-	-
Marketing and transportation	30	-	30	-	-	-
Administrative	-	1,010	1,010	-	994	994
Depreciation and amortization	2,480	1	2,481	-	-	-
	7,505	1,011	8,516	-	994	994
Loss from operating activities	(687)	(1,011)	(1,698)	-	(719)	(719)
Income on investment in Joint Venture (1)	-	-	-	394	-	394
Interest income	-	-	-	-	732	732
Interest expense	-	(1,422)	(1,422)	-	(3,030)	(3,030)
Foreign exchange gain(loss)	-	(13)	(13)	-	72	72
Change in fair value of warrants	-	4	4	-	-	-
Net income(loss)	(687)	(2,442)	(3,129)	394	(2,945)	(2,551)

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

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Six Months Ended					
(US$000's)	June 30, 2017			June 30, 2016		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Petroleum and natural gas [1]	16,056	-	16,056	-	-	-
Management services fees	-	-	-	-	609	609
	16,056	-	16,056	-	609	609
Expenses [1]						
Operating	8,924	-	8,924	-	-	-
Impairment of accts receivable	2,381	-	2,381	-	-	-
Marketing and transportation	58	-	58	-	-	-
Administrative	-	1,624	1,624	-	2,044	2,044
Depreciation and amortization	4,973	2	4,975	-	1	1
	16,336	1,626	17,962	-	2,045	2,045
Loss from operating activities	(280)	(1,626)	(1,906)	-	(1,436)	(1,436)
Income on investment in Joint Venture [1]	-	-	-	651	-	651
Interest income	-	-	-	-	1,465	1,465
Interest expense	-	(2,813)	(2,813)	-	(5,731)	(5,731)
Foreign exchange loss	-	(18)	(18)	-	(1,102)	(1,102)
Change in fair value of warrants	-	240	240	-	-	-
Net income(loss)	(280)	(4,217)	(4,497)	651	(6,804)	(6,153)

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

Major customers

During the six months ended June 30, 2017, BEL's petroleum and natural gas production entitlement volumes were sold to a single customer, SOCAR, the State Oil Company of Azerbaijan. Prior to the Acquisition on August 9, 2016, the Company's 33.33% share of BEL's petroleum and natural gas entitlement revenues was recorded as Income or loss in Investment in Joint Venture in the Consolidated Statement of Comprehensive Loss. For the three and six months ended June 30, 2017, the Company recorded BEL's petroleum and natural gas entitlement revenues in the amount of $6.8 million and $16.1 million, respectively.

For the three and six months ended June 30, 2017, the Company recorded $nil (June 30, 2016 - $0.3 million and $0.6 million, respectively) in management service fees for management, administrative and technical support services provided at cost to BEL and BEOC before the Acquisition.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
US$000's	2017	2016	2017	2016
Trade receivables	(2,259)	-	(1,310)	-
Receivables from related parties	-	69	-	210
Advances for operating activities	(558)	-	(1,059)	-
Other receivable	(534)	11	(2,381)	6
Prepaid expenses and deposits	(33)	19	(63)	(9)
Inventories	9	-	163	-
Accounts payable and accrued liabilities	(429)	114	(1,678)	520
	(3,804)	213	(6,328)	727

17. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of June 30, 2017:

US$000's	**2017**	**2018**	**Thereafter**
Operating leases [(1)]	24	-	-
Short term loans – interest [(2)]	4,500	4,266	-
Short term loans - principal	-	44,173	-
	4,524	48,439	-

[(1)] The Company has leased office space for its corporate headquarters in the United States through December 2017. An 18 months lease extension is expected to be executed in September 2017.
[(2)] Represents New Loan remaining 2017 prepayment obligations and accrued interest estimated through maturity.

The Company's commitments to fund the Bahar Project are based on the annual Work Plan and Budget ("**WP&B**") approved by the BEOC Steering Committee. The WP&B must be approved by contractor parties representing an 80% or greater ownership interest before submission to SOCAR. With Bahar Energy holding an 80% controlling interest in the ERDPSA and now being a wholly-owned subsidiary of the Company, the Company maintains control of the approval of the annual WP&B.

18. 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 June 30, 2017, the Company's accounts receivable primarily consists of receivables from petroleum and natural gas sales to SOCAR, with collections generally occurring in 30 to 90 days. The Company historically has not experienced significant collection issues with its accounts receivable, however, as SOCAR continues experiencing liquidity issues due to the significant impact of lower oil prices on Azerbaijan's economy, payments for natural gas sales have been delayed with gas invoices being outstanding for up to 60 days. During the current year, invoices have been fully settled through an average of 5 partial payments. In July 2017 BEOC sent SOCAR a notice of dispute to activate the contractual 30 days term to reach a satisfactory agreement. Despite SOCAR's payment delays, all outstanding balances are considered by management to be collectable at June 30, 2017.

Cash and cash equivalents consist of bank deposits held in major United States banks for corporate activities and cash held by BEOC in Azerbaijan for operating activities. Cash held in bank accounts are exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions for corporate accounts in the United States and for BEOC operating accounts in Azerbaijan.

The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

Credit Risk

US$000's	June 30, 2017	December 31, 2016
Cash and cash equivalents	2,173	1,361
Trade receivables	10,016	8,776
Advances for operating activities	1,861	802
	14,050	10,939

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as much as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and unusual conditions without incurring unacceptable costs, relinquishment of properties or risking harm to the Company's reputation. However, the Company's current cash balance of $2.2 million does not allow for meeting its ongoing obligations as they come due, thereby requiring additional funding to continue providing working capital for the Bahar project and corporate purposes. The timing or likelihood of such funding is uncertain. See also *Note 2 – Basis of Presentation and Going Concern.*

The Company prepares annual and interim period expenditure budgets and forecasts, which are regularly monitored and updated as considered necessary to provide current cash flow estimates related to project and corporate funding obligations. The Company may raise capital through debt and the issuance of shares to meet these funding requirements. The Company's financial liabilities as at June 30, 2017 and December 31, 2016 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 following table summarizes the remaining contractual maturities of the Company's financial liabilities at June 30, 2017:

Liquidity Risk	June 30, 2017				December 31, 2016
US$000's	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued liabilities (1)	14,000	-	-	14,000	13,692
Short term loans – interest (2)	8,766	-	-	8,766	8,537
Short term loans - principal (2)	44,173	-	-	44,173	44,173
	66,939	-	-	66,939	66,402

(1) As at June 30, 2017 and December 31, 2016, the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.

(2) Represents principal and accrued interest estimated through maturity on short term loans with maturity date of March 31, 2018. See *Note 9 - Short Term Loans.*

c) Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as the result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars. As at June 30, 2017 and December 31, 2016, the Company had no forward exchange contracts in place.

d) Commodity price risk

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

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

As at June 30, 2017 and December 31, 2016, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company mitigates its exposure to interest rate changes by holding fixed rate debt. As at June 30, 2017 the sensitivity in net earnings for each one percent change in interest rates is not significant.

Fair value of financial instruments

The fair values of financial instruments as at June 30, 2017 and December 31, 2016 are disclosed below by financial instrument category as follows:

US$000's	Level	June 30, 2017 Carrying Amount	June 30, 2017 Fair Value	December 31, 2016 Carrying Amount	December 31, 2016 Fair Value
Assets at FVTPL					
Cash and cash equivalents	1	2,173	2,173	1,361	1,361
Loans and receivables					
Trade Receivables		10,016	10,016	8,776	8,577
Advances for Operating activities		1,861	1,861	802	802
Other financial liabilities					
Accts payable and accrued liabilities [(a)]	-	13,643	13,643	13,300	13,300
Short term loans		48,429	48,429	-	-
Long term loans		-	-	45,617	45,617
Liabilities at FVTPL					
Share based bonus	2	357	357	392	392
Warrants	2	306	306	546	546

(a) The accounts payable and accrued liabilities mainly consist of trade payables related to BEOC.

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

19. CAPITAL STRUCTURE AND MANAGEMENT

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

Composition of the Company's capital structure

US$000's	June 30, 2017	December 31, 2016
Working Capital [(1)]	(47,136)	(1,444)
Long term debt and shareholders' equity	138,439	185,103
Ratios of working capital to long term debt and shareholders' equity	(34%)	(1%)

(1) Working capital at June 30, 2017 includes short term loans related party and other short term loans. The Company expects to further restructure these short term loans through a combination of long term debt financing and equity.