GREENFIELDS PETROLEUM
CORPORATION

# Consolidated Financial Statements

For the years ended
December 31, 2015 and 2014

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**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Greenfields Petroleum Corporation

We have audited the accompanying consolidated financial statements of Greenfields Petroleum Corporation and Subsidiaries ("Greenfields") which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the statements of net loss, comprehensive loss, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditors' Responsibility**

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

An audit involves performing procedures, on a test basis, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Greenfields as at December 31, 2015 and 2014, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

Calvetti Ferguson

Calvetti Ferguson
Certified Public Accountants
Houston, Texas
April 29, 2016

## GREENFIELDS PETROLEUM CORPORATION
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*US$000's*

| | *Notes* | As at December 31, 2015 | As at December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 100 | 736 |
| Accounts receivable related party | *5* | 416 | 1,763 |
| Short term loans receivable related party | *6* | 26,884 | 20,040 |
| Other receivables | | 6 | 20 |
| Prepaid expenses and deposits | *7* | 39 | 493 |
| | | 27,445 | 23,052 |
| **Non-Current Assets** | | | |
| Investment in joint venture | *8* | 62,077 | 59,105 |
| Property and equipment | | 1 | 35 |
| | | 89,523 | 82,192 |
| **Liabilities and Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | *9* | 6,923 | 2,062 |
| Short term loan | *10* | 27,000 | 22,456 |
| | | 33,923 | 24,518 |
| **Non-Current Liabilities** | | | |
| Long term loan | *11* | 24,269 | 19,466 |
| Convertible debentures | *12* | 15,132 | 16,713 |
| | | 39,401 | 36,179 |
| **Shareholders' Equity** | *13* | | |
| Common shares | | 22 | 20 |
| Paid in capital | | 76,935 | 74,912 |
| Share-based payments reserve | *14* | 5,466 | 5,263 |
| Deficit | | (66,224) | (58,700) |
| Total Shareholders' Equity | | 16,199 | 21,495 |
| *(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 19)* | | 89,523 | 82,192 |

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

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

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

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

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Revenues** | | |
| Management service fees | 1,555 | 2,044 |
| **Expenses** | | |
| Administrative | 5,048 | 7,471 |
| Depreciation and amortization | 34 | 71 |
| | 5,082 | 7,542 |
| Loss from operating activities | (3,527) | (5,498) |
| Gain on sale of investment | - | 16 |
| Income on investment in joint venture *(Note 8)* | 2,305 | 3,270 |
| Interest income *(Note 15)* | 3,203 | 1,608 |
| Interest expense *(Note 15)* | (12,457) | (9,462) |
| Foreign exchange gain | 2,925 | 1,497 |
| Change in fair value of derivative liability *(Note 12)* | 27 | 1,245 |
| Loss before income taxes | (7,524) | (7,324) |
| **Total comprehensive loss** | (7,524) | (7,324) |
| **Per share** | | |
| Loss per share, basic and diluted *(Note 13)* | ($0.34) | ($0.37) |

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

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

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Common shares** *(Note 13)* | | |
| Balance, beginning of year | 20 | 20 |
| Issuance of common shares | 2 | - |
| Balance, end of year | 22 | 20 |
| **Paid in capital** | | |
| Balance, beginning of year | 74,912 | 72,410 |
| Shares issued pursuant to private placement | 1,798 | - |
| Shares issued - long term loan | - | 1,625 |
| Repurchase of common shares | (3) | (160) |
| Share-based payments | 228 | 1,037 |
| Balance, end of year | 76,935 | 74,912 |
| **Share-based payments reserve** *(Note 14)* | | |
| Balance, beginning of year | 5,263 | 4,847 |
| Share-based payments | 203 | 416 |
| Balance, end of year | 5,466 | 5,263 |
| **Deficit** | | |
| Balance, beginning of year | (58,700) | (51,376) |
| Loss for the year | (7,524) | (7,324) |
| Balance, end of year | (66,224) | (58,700) |
| **Total Shareholders' Equity** | 16,199 | 21,495 |

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

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

| | Years Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Operating Activities** | | |
| Loss before income taxes | (7,524) | (7,324) |
| Items not affecting cash: | | |
| Share-based compensation *(Note 14)* | 383 | 1,453 |
| Depreciation and amortization | 34 | 71 |
| Income on investment in joint venture *(Note 8)* | (2,305) | (3,270) |
| Interest income *(Note 15)* | (3,203) | (1,608) |
| Interest expense *(Note 15)* | 12,457 | 9,462 |
| Unrealized foreign exchange gain | (2,923) | (1,493) |
| Change in fair value of derivative liability *(Note 12)* | (27) | (1,245) |
| Cash used in operating activities before changes in non-cash working capital | (3,108) | (3,954) |
| Change in non-cash operating working capital *(Note 16)* | 1,796 | (2,098) |
| Cash Used in Operating Activities | (1,312) | (6,052) |
| **Financing Activities** | | |
| Proceeds from issue of common shares | 1,800 | - |
| Proceeds from short term loans *(Note 10)* | 2,000 | 19,500 |
| Proceeds from long term loans, net of structuring fees | 2,342 | 18,492 |
| Long term loan transaction costs | - | (245) |
| Cash interest paid on convertible debentures and loans | (1,117) | (4,646) |
| Repurchase of common shares | (3) | (160) |
| Cash From Financing Activities | 5,022 | 32,941 |
| **Investing Activities** | | |
| Investment in joint venture *(Note 8)* | (666) | (10,752) |
| Short term loans to related party *(Note 6)* | (3,675) | (18,432) |
| Cash Used in Investing Activities | (4,341) | (29,184) |
| Effect of exchange rates on changes on cash | (5) | (37) |
| **Decrease in Cash and Cash Equivalents** | (636) | (2,332) |
| **Cash and Cash Equivalents, beginning of year** | 736 | 3,068 |
| **Cash and Cash Equivalents, end of year** | 100 | 736 |

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

## 1. INCORPORATION AND NATURE OF OPERATIONS

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

The Company owns 33.33% interest in Bahar Energy Limited ("**Bahar Energy**" or "**BEL**" or "**Joint Venture**"), a joint venture that on December 22, 2009 entered into an Exploration, Rehabilitation, Development and Production Sharing Agreement (the "**ERDPSA**") with the State Oil Company of Azerbaijan ("**SOCAR**") and its affiliate SOCAR Oil Affiliate ("**SOA**") in respect of the offshore block known as the Bahar Project ("**Bahar Project**"), which consists of the Contract Rehabilitation Area ("**Contract Rehabilitation Area**") including the Bahar Gas Field and the Gum Deniz Oil Field and the Exploration Area ("**Exploration Area**"). The remaining 66.67% interest in Bahar Energy is owned by Baghlan Group Limited ("**Baghlan**").

Bahar Energy has an 80% participating interest and SOA has a 20% participating interest in the ERDPSA (together the "**Contractors** or **Contractor Parties**"). Bahar Energy formed Bahar Energy Operating Company Limited ("**BEOC**") for the purpose of acting as Operator of the Bahar Project on behalf of the Contractor Parties under the ERDPSA.

On April 27, 2010, the Azerbaijan Parliament, also referred to as Milli Mejlis, ratified the ERDPSA with SOCAR and its affiliate SOA. On September 29, 2010, the Company was notified by SOCAR that all conditions precedent to the ERDPSA were satisfied and the ERDPSA became effective on October 1, 2010.

Upon assuming control of operations on October 1, 2010, Bahar Energy was required to complete and submit to SOCAR within 90 days the draft rehabilitation and production plan for the Bahar and Gum Deniz fields. The plan, referred to as the "Rehabilitation and Production Programme", was submitted to SOCAR in late December 2010. Under the ERDPSA, Bahar Energy will have the obligation to achieve, not later than three (3) years from the date of SOCAR's approval of the "Rehabilitation and Production Programme", an average daily rate of petroleum production from the contract rehabilitation area during ninety (90) consecutive days of 150% of the average 2008 production rates ("**Target Production Rate 1**", or "**TPR1**") or 6,944 barrels of oil equivalent per day **(**"**boe**", "**boe/d**"). Meeting TPR1 will result in the realization of the full 25 year term of the agreement for the Contract Rehabilitation Area. If Bahar Energy fails to meet the TPR1 within the three year timeframe, SOCAR shall have the right to terminate the ERDPSA in relation to the Contract Rehabilitation Area at their option. Approval of the "Rehabilitation and Production Programme" was received from SOCAR on June 22, 2011 establishing the start date for the three year period in which the production rate target must be met.

In addition to the TPR1 production levels for continuance of the ERDPSA for the 25 year term, Bahar Energy is obligated to carry SOA's 20% share of expenditures in the rehabilitation area until production rates are two times the 2008 production rates, or the equivalent of 9,259 boe/d ("**Target Production Rate 2**" or "**TPR2**"), at which time SOA becomes fully responsible for funding their share of expenditures. The SOA carry for the rehabilitation area is reimbursed out of SOA's share of entitlement petroleum or revenues currently produced from the rehabilitation area. Any unrecovered balance is carried forward from one period to the next.

On January 31, 2014, BEOC informed SOCAR that they had maintained an average rate of 7,081 boe/d for the previous 92 consecutive days meeting the TPR1 requirement in accordance with the ERDPSA. Meeting the TPR1 requirement secured, for the Contractor Parties in the ERDPSA, the rights under the ERDPSA to the full twenty-five (25) year development and production period.

On April 17, 2014, BEOC informed SOCAR the TPR2 requirement under the ERDPSA was achieved on March 31, 2014. With that obligation met, SOA, with a 20% interest in the Bahar project, was obligated to begin paying its share of project costs April 1, 2014. SOA's carry balance, which totaled approximately $35.0 million at the end of first quarter of 2014, continues to be reimbursed out of SOA's share of entitlement petroleum revenues allocated to cost recovery from the Rehabilitation Area. As of December 31, 2015 SOA has not met its obligation to fund the 20% share of the Bahar project expenditures from the April 1, 2014 effective date.

For the first three years of the ERDPSA, 5% of the production (referred to as "**Compensatory Production**") was delivered to SOCAR. In year four, the percentage increased to 10% of production until the cumulative Compensatory Production delivered equals a specified target amount for oil and for natural gas, calculated separately.

**Operating Environment of the Company**

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

## 2. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards ("**IFRS**")* as issued by the *International Accounting Standards Board ("**IASB**")*. The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments (convertible debentures) and share-based compensation transactions which are measured at fair value as discussed in *Note 3 – Significant Accounting Policies*. The presentation and functional currency of the Company is the United States dollar ("**USD**") and all values are presented in thousands of US dollars except where otherwise indicated.

These consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements, which have a material impact on the Company.

These consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on April 25, 2016.

The Company's joint venture is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment in the joint venture is dependent upon the joint venture's ability to complete the development of properties which includes meeting the related financing requirements. For the year ended December 31, 2015, the Company incurred losses of $7.5 million (December 31, 2014 – loss of $7.3 million) and has an accumulated deficit of $66.2 million as at the same date. In addition, the Company has a negative working capital balance of approximately $6.5 million as at December 31, 2015. Consequently, the Company's ability to continue as a going concern is dependent on management's ability to obtain additional funding, to collect amounts due the Company from third parties, to meet ongoing debt obligations and to ultimately achieve profitable operations.

As part of the Acquisition and Restructuring Transaction noted below, the Company has raised additional funds to complete the proposed acquisition and initiate restructuring of the Company's debt obligations. The Company will also continue to seek funding sources to provide working capital for the Bahar project and corporate purposes. After completing the Acquisition and Restructuring Transaction, which will consolidate a higher share of reserves resources and significantly reduce debt obligations, the Company will seek reserves based borrowing opportunities to replace its remaining senior debt with a lower financing cost facility and to provide continued funding for the Bahar project. Should market conditions improve, the Company will also evaluate the potential for equity placement to replace some or all of its debt obligations. However, there are no assurances the Company will be successful in completing the Acquisition and Restructuring Transaction and raising additional capital through debt financing or issuance of equity on favorable terms.

Without access to additional funding in 2016, and beyond the facts disclosed above or the resolution of items noted below, there is significant doubt that the Company will be able to continue as a going concern due to, but not limited to the following items if they continue unresolved:

- Acquisition of remaining 66.67% interest in Bahar Energy.
- Restructuring of Senior Debt.

On March 8, 2016 Greenfields' announced that it, through its wholly-owned subsidiary, Greenfields Petroleum International Company Ltd. ("**GPIC**"), has entered into a share purchase agreement with Baghlan Group Limited (in liquidation) and its liquidator as agent for and on behalf of Baghlan (the "**Liquidator**"), pursuant to which, GPIC has agreed to purchase Baghlan's 66.67% interest (the "**Interest**") in BEL and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan (the "**Acquisition**"). The aggregate consideration payable by GPIC for the Acquisition includes a cash payment of $6.0 million, and a release and discharge of liabilities, claims and demands in relation to certain default loan amounts and any and all other obligations, liabilities, claims or demands of any kind owed to BEL, BEOC and/or Greenfields by Baghlan (the "**Default Obligations**"). The Company estimates the accrued Default Obligations to be an aggregate of $57.6 million. Upon completion of the Acquisition, BEL will become a wholly-owned subsidiary of GPIC. The cash consideration of $6.0 million has been placed into escrow pending satisfaction of certain conditions to the completion of the Acquisition. Completion of the Acquisition is subject to certain closing conditions, including, without limitation, receipt of the approval of the TSXV and other necessary regulatory approvals.

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

In consideration of the Lender entering into the Fifth Amending Agreement, the Company has agreed to: (i) obtain the approval of holders ("**Debentureholders**") of the 9.00% convertible unsecured subordinated debentures due May 31, 2017 (the "**Debentures**") for the conversion (the "**Debenture Conversion**") of the CAD$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.2 million common shares in the capital of the Company ("**Common Shares**"); (ii) issue, in connection with the completion of the restructuring, up to an aggregate of 2,394,000 Common Shares for every $1,000,000 of principal due to the Lenders under the Loan Agreement; and (iii) issue, in connection with the completion of the restructuring, an equivalent number of Common Share purchase warrants ("**Warrants"**) to the Lenders (collectively, the "**Restructuring Transaction**"). The Debenture Conversion will be implemented upon the approval of the Debentureholders, by way of extraordinary resolution, pursuant to and in accordance with the terms of the indenture governing the Debentures.

Contemporaneous with the completion of the Restructuring Transaction, the Company anticipates signing an amending agreement to further extend the maturity date under the Loan Agreement to December 31, 2017. Both the Acquisition and Restructuring Transaction remain subject to approval in their entirety by the TSXV.

If Greenfields is unable to obtain the requisite approvals of the Debentureholders and the Shareholders, then any of such failures constitutes an event of default under the Fifth Amending Agreement and all loan amounts outstanding become immediately due and payable. In such case, Greenfields will be unable to pay such accelerated amounts and continue as a going concern.

The outcome of the above matters cannot be predicted at this time. 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 and the results of the Company's investment in a joint venture as at December 31, 2015.

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

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

The Company records its share of assets and liabilities associated with joint operations while joint ventures are equity accounted. 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 include bank deposits and money market investment accounts with maturities of three months or less when purchased.

**Accounts receivable**

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

**Exploration and evaluation costs ("E&E")**

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

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

**Property and equipment ("P&E")**

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

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

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

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

**Financial assets**

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

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

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

**Non-financial assets**

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

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

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

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

**Share-based payments**

Share-based payment costs attributed to all share options granted to employees, directors and service providers are measured at fair value at the date of grant using the Black-Scholes 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 liability method to account for income taxes. Under this method, deferred income taxes are based on the difference between assets and liabilities reported for financial accounting purposes from those reported for income tax. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Deferred income tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered due to the uncertainty of timing or to the extent that other events not directly controlled by the Company must occur to allow future asset recovery. Deferred tax assets and tax liabilities are offset to the extent there is a legal right to settle on a net basis.

**Revenue recognition**

Management service fees represent revenue for administrative, operational and technical support provided at cost to Bahar Energy and a legal entity in which the Company has an equity investment. Such support is provided either through third parties or the Secondment of Company employees to BEOC. The management fees are recognized on a monthly basis when earned and when ultimate collection is reasonably assured. Interest income is recognized as earned, over the term of the investment.

**Decommissioning liabilities**

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

### Leases

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

### Per share amounts

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

### Financial instruments

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

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

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

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

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

**Convertible Debentures**

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

**Foreign currency translation**

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

**Borrowing Costs**

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

**Critical judgments, estimation uncertainty and assumptions**

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

*a) Cash generating units*

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

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

*b) Functional currency*

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

*c) Joint arrangements*

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

The Company owns 33.33% interest in Bahar Energy, an entity governed by its Articles of Association and the Bahar Shareholders Agreement ("**BSA**") which includes basic formation and governance provisions. The BSA was created so that all shareholders participate equally in the decision making process and related approvals associated with the Bahar Project. Unanimous consent of the shareholders is required for any resolution to be passed except in the situations disclosed in *Note 8 - Investment in Joint Venture*. Based on these facts and circumstances, the Company determined that the BSA represents a joint arrangement structured through Bahar Energy, a separate entity whose legal existence creates separation between the jointly controlling parties in the arrangement and the assets and liabilities of Bahar Energy. Consequently, Bahar Energy satisfies the definition of a *Joint Venture* pursuant to which the Company has contractually agreed to the sharing of control and thus representing a joint venturer under the arrangement. Therefore, the Company's 33.33% interest in Bahar Energy would have to be disclosed as a Joint Venture and accounted for using the equity method.

*d) Decommissioning liabilities*

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

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

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

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

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

e) *Exploration and evaluation ("**E&E**")*

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

*f) Fair value measurement*

The Company measures the fair value of financial instruments at each statement of financial position date. See *Note 20 – Financial Instruments and Financial Risk Management* for fair values of financial instruments measured at amortized cost. The Company uses valuation techniques and makes judgments to determine how relevant and sufficient data should be in measuring fair value. Changes in estimates and assumptions could affect the reported fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

*g) Deferred taxes*

Judgment is required to determine whether the Company will recognize deferred tax assets in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require assessment of the likelihood that the Company will generate sufficient taxable income in future periods, in order to utilize recognized deferred tax assets. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. Assumptions about the generation of future taxable income depend on the Company's estimates of future earnings from its ownership in Bahar Energy. The Bahar Project, in the early rehabilitation and development stage, requires significant development funding and re-investment of operating cash flows for the foreseeable future. Earnings from the Bahar project are not taxable to the Company until Bahar Energy declares dividends from the surplus funds generated from the ERDPSA. Before Bahar Energy can declare dividends, shareholders loans must be repaid with accumulated interest, which will be returned to the Company non-taxable. With much of the early funds returned from Bahar Energy being non-taxable as loan repayments, the Company's potential taxable dividends horizon is beyond that normally allowed under IFRS for recognition of deferred tax assets. Accordingly, in 2011 the Company elected to derecognize its accumulated deferred tax asset, but will continue to reassess the unrecognized deferred tax asset at the end of each reporting period. *See Note 17 – Deferred Income Taxes*.

## 4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

The Company has not adopted new IFRS standards for the year ended December 31, 2015. However, the following new standards are being evaluated to determine its potential impact on the Company's consolidated financial statements.

**IFRS 9 "Financial Instruments"**

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

**IFRS 15 "Revenue from Contracts with Customers"**

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

**IFRS 16 "Leases"**

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

## 5. RELATED PARTY TRANSACTIONS

At December 31, 2015 the Company had a balance of $0.4 million (December 31, 2014 - $1.8 million) in accounts receivable due from Bahar Energy and BEOC. Balances due consist of charges to BEOC for management, administrative and technical services provided under "Affiliate Service Orders" ("**ASO**") and Personnel Secondment Agreements, as well as charges to Bahar Energy for legal, finance and commercial support. Management does not believe balances due pose collection risk as these charges are associated with amounts invoiced in the normal course of business.

For the year ended December 31, 2015, the Company recorded $1.6 million (December 31, 2014 $2.0 million) in management service fees associated with services provided at cost to Bahar Energy and BEOC.

**Compensation of key management personnel**

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

| *US$000's* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Short-term benefits | 1,887 | 2,573 |
| Share-based payments | 315 | 1,418 |
| | 2,202 | 3,991 |

## 6. SHORT TERM LOANS RECEIVABLE RELATED PARTY

**Funding the Default Loan Amounts of Baghlan Group Limited**

At December 31, 2015 the Company had funded $22.1 million (December 31, 2014 - $18.4 million) to enable GPIC to cover defaulted loan funding obligations of Baghlan, the other shareholder of Bahar Energy. With the funding of the defaulted obligations, GPIC provides protection for the interest of Bahar Energy in the ERDPSA and ensures the Bahar project has adequate working capital to fund the capital program. All of Greenfields transaction costs, financing costs and principal balance due, resulting from the acquisition and use of loan facility funds, are subject to reimbursement when the default loan obligations are paid to Bahar Energy by Baghlan or their replacement as a shareholder in Bahar Energy. The Default Loans repayment obligation by Baghlan also includes an additional 4% interest due the Company as a result of the failure to fund drawdown requests. The Company also benefits from a preferential dividend position as a result of providing Default Loans whereby it is entitled to receive first dividend distributions equal to the total Default Loans repayment obligation before Baghlan will participate in future dividends at their 66.67% ownership interest.

At December 31, 2015 the Company had a $26.9 million (December 31, 2014 - $20.0 million) loan receivable balance with Bahar Energy inclusive of $4.8 million (December 31, 2014 - $1.6 million) of financing costs and interest.

## 7. PREPAID EXPENSES AND DEPOSITS

At December 31, 2015 the Company had prepaid expenses and deposits of $39 thousand (December 31, 2014 - $493 thousand). The 2014 balance included $402 thousand in deferred loan structuring fees which were amortized as expense during the year ended December 31, 2015.

## 8. INVESTMENT IN JOINT VENTURE

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

### Continuity of Investment in Joint Venture

| *US$000's* | Investment in Joint Venture |
|---|---|
| **At January 1, 2014** | 45,083 |
| Funding | 10,752 |
| Share of Income from Joint Venture | 3,270 |
| **At December 31, 2014** | 59,105 |
| Funding | 667 |
| Share of Income from Joint Venture | 2,305 |
| **At December 31, 2015** | 62,077 |

Bahar Energy, formed for the sole purpose of acquiring the rights to the ERDPSA, is a limited liability entity incorporated in the Jebel Ali Free Zone ("**JAFZA**") in Dubai, United Arab Emirates. Bahar Energy is currently owned 66.67% by Baghlan Group Limited and 33.33% by Greenfields Petroleum International Company Limited. Bahar Energy is governed by its Articles of Association and the BSA. The registered office of Bahar Energy is LOB 15-514, P.O. Box 17870, Dubai, United Arab Emirates.

In accordance with the IFRS 11 guidance, the Company determined that the BSA represents a joint arrangement structured through Bahar Energy, a separate vehicle and entity in its own right, whose legal form creates a separation between the jointly controlling parties in the arrangement and the assets and liabilities of said vehicle. Bahar Energy meets the definition of a joint venture in which the Company has contractually agreed sharing of control therefore representing a joint venturer in the arrangement.

The BSA requires that all resolutions put to a vote of the shareholders be approved by unanimous vote. Similarly, all resolutions put to a vote of the directors must be approved by unanimous vote, except in the following instances:

(a) If the board cannot reach a unanimous decision to approve an annual work program and budget ("**WP&B**") consistent with the obligations of the ERDPSA, then the proposal capable of satisfying the minimum work and production obligations for the calendar year in question that receives the highest percentage vote shall be deemed approved by the board as the annual work program and budget.

(b) If the board cannot reach a unanimous decision regarding dividends, then the proposal receiving the highest percentage vote will prevail.

Bahar Energy funding needs are primarily covered by entitlement revenues, equity contributions and shareholder loans. To the extent that additional funds are required, the Bahar Energy shareholders have entered into the Common Terms Agreement ("**CTA**") pursuant to which each shareholder agrees to grant Bahar Energy a credit facility to be made available by way of annual loan agreements up to a specific amount based on the annual work plan approved by the directors. Future cash flows from operations under the ERDPSA would be used to repay the loans.

**Defaulting Shareholder**

Should a shareholder fail to execute a loan agreement or fail to make a required loan funding payment, the other shareholders by additional loan agreement will fund the amount that would otherwise be due from the defaulting shareholder. Any existing loan balance of a defaulting shareholder will be considered a "last in" loan and only repaid after all amounts outstanding from other funding shareholders are repaid in full. The defaulting shareholder will also temporarily lose voting rights on the Bahar Energy board and as a shareholder. At any time the defaulting shareholder may remedy the default by payment of any loan amounts due with interest. Once remedied, the shareholder's position in loan payment rights and board and shareholder voting rights are restored.

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

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

| **Assets** | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | 1,218 | 2,994 |
| Trade receivables [1] | 8,365 | 14,392 |
| Other receivable | 26,130 | 9,679 |
| Advances for operating activities | 1,020 | 849 |
| Inventories | 1,575 | 2,106 |
| | 38,308 | 30,020 |
| **Non-Current Assets** | | |
| Restricted cash [2] | - | 7,489 |
| Advances for capital equipment | 102 | 393 |
| Property and equipment | 159,505 | 158,800 |
| | 197,915 | 196,702 |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 7,804 | 6,048 |
| Payables to related parties | 1,350 | 10,303 |
| Short term notes payable [3] | 26,883 | 20,040 |
| | 36,037 | 36,391 |
| **Net Assets** | 161,878 | 160,311 |
| Company's share of net assets (33.33%) | 53,954 | 53,431 |
| Timing differences in Joint Venture funding | 8,123 | 5,674 |
| Carrying amount of Investment in Joint Venture | 62,077 | 59,105 |

(1) Balance includes $1.3 million in outstanding obligations due BEOC by a third party operator for services provided under a facilities sharing agreement terminated in second quarter 2015. BEOC, with SOCAR's assistance, has continued the efforts to collect past due amounts and is currently considering arbitration. Consequently, Bahar Energy has recorded a $1.3 million provision for doubtful accounts for the year ended December 31, 2015.

(2) Bahar Energy had held for related party the balance of $7.5 million deposited in the Bank of Azerbaijan as the funds were not available for operations at December 31, 2014. At December 31, 2015 Bahar Energy had written off said balance from the books as consequence of Bank of Azerbaijan entering bankruptcy proceedings and the funds were not protected by the Azerbaijan Deposit Insurance Fund. BEL reimbursed the funds to BEOC in 2014 as part of Default Loan funding.

(3) Balance includes $22.1 million in Default Loan funding provided by GPIC to BEL plus $4.8 million in financing costs and interest. See also *Note 6 – Short Term Loans Receivable Related Party*.

*[The remainder of this page intentionally left blank]*

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

| | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| **Revenues** | | |
| Petroleum and natural gas | 38,173 | 65,451 |
| Transportation and storage fees [1] | 1,138 | 4,191 |
| | 39,311 | 69,642 |
| **Expenses** | | |
| Operating & administrative [2] | 24,630 | 46,964 |
| Depreciation and amortization | 7,766 | 12,868 |
| | 32,396 | 59,832 |
| Income from operating activities | 6,915 | 9,810 |
| **Net Income** | 6,915 | 9,810 |
| **Company's Share of Income of Joint Venture** [3] | 2,305 | 3,270 |

(1) During second quarter 2015, the facilities sharing agreement covering the transportation and storage services provided by BEOC to a third party operator was terminated.
(2) Includes a $1.3 million provision for doubtful accounts ($0.4 million to Company's 33.33% interest in Joint Venture) in connection with outstanding balances due BEOC by a third party operator.
(3) The Company's 33.33% interest in Bahar Energy Limited is disclosed as a Joint Venture and accounted for using the equity method.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| *US$000's* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Trade accounts payable | 192 | 45 |
| Accrued liabilities [1] | 6,731 | 2,017 |
| | 6,923 | 2,062 |

(1) The accrued liabilities at December 31, 2015 include $3.4 million in deferred Short Term Loan interest payment as well as $1.7 million in convertible debentures interest payment. See also *Note 10 – Short Term Loan and Note 12 – Convertible Debentures,* respectively.

## 10. SHORT TERM LOAN

On November 25, 2013 the Company secured a $25 million loan facility ("**Loan**") through an arm's length third party (the "**Lender**"). Pursuant to the terms of the loan agreement (the "**Loan Agreement**") among the Lender, the Company, Greenfields Petroleum Holdings Ltd. and Greenfields Petroleum International Company Ltd., as guarantors ("**Guarantors**"), the Company is entitled to draw up to an aggregate of $25 million in tranches based upon the achievement of certain operational milestones.

The Loan is subject to a cash structuring fee of 2.5% payable on each tranche advanced in accordance with the Loan Agreement. The amounts drawn bear interest rates between 15% and 20% payable quarterly and mature on December 31, 2015. The Loan is secured by first priority liens on the existing and future assets of the Company and the Guarantors. Also in consideration of the Loan, the Company agreed to issue to the Lender common shares of the Company as bonus shares (the "**Bonus Shares**") which were subject to resale restrictions expiring four months from the date of issuance. At December 31, 2014 the Company had drawn available advances of $25 million ($24.375 million net of 2.5% cash structuring fees) of the secured Loan and recorded transaction costs of $0.7 million. In addition, the Company issued 1,200,627 Bonus Shares to the Lender with a value of $3.5 million. The transaction costs and the value of Bonus Shares are accreted over the life of the loan. See also *Note 13 – Shareholders' Equity.*

On May 27, 2015 the loan agreement dated November 25, 2013 was amended (the "**Amendment**") to allow for an increase to the existing credit facilities made available to the Company. Through the Amendment, the Company secured an additional amount of $2.0 million (the "**New Tranche**"). The funds available under the New Tranche are to be used by the Company to finance the Company's ongoing development operations in Azerbaijan as it relates to the Gum Deniz Oil Field and Bahar Gas Field. The New Tranche bears interest at a rate of 15% per annum and was due and payable by no later than December 31, 2015**.** A commission of CAD $500,000 will be payable when the Loan is paid off. The terms of the Amendment also allowed for the deferral until December 31, 2015 of a $1.1 million interest payment due July 1, 2015 and created the obligation for the Company to make three consecutive monthly payments of $50 thousand towards deferred interest during the period July through September 2015. Subsequent to the Amendment, the Company has obtained consent from the Lender to defer, without penalty, the $1.2 million interest payment due October 1, 2015. It is anticipated the Lender will continue to support deferral of interest payments until the sale of the Baghlan's share interest in Bahar Energy is completed. See also *Note 22 – Subsequent Events.*

| *US$000's* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Total loans drawn down | 27,000 | 25,000 |
| Unamortized debt issue costs | - | (2,544) |
| **Carrying value of short term loan (1)** | **27,000** | **22,456** |

(1) The loan was initially classified as long term in 2013 and throughout 2014. For the year ended December 31, 2014 the loan was reclassified to short term due to its December 31, 2015 contractual maturity.

## 11. LONG TERM LOAN

On July 2, 2014 the Company announced the June 27, 2014 closing of a $21 million loan facility (the "**Loan-2**") with Heaney Assets Corporation ("**Heaney**"). At December 31, 2015, the Company had completed the drawdown of $20.8 million on the Loan-2 (December 31, 2014 - $18.4 million). Pursuant to the terms of the Loan-2, the Company is entitled to draw up to an aggregate of $21 million as needed for the purposes of funding obligations under the Bahar Energy Limited shareholders agreement to meet the capital needs of the Bahar Project. The Loan incurred a 0.15% commitment fee and bears interest at a rate of 12% per annum accrued quarterly. The Loan-2 and respective accrued interest will mature on June 30, 2018.

At December 31, 2015, the Company had a Long Term Loan balance of $24.3 million (December 31, 2014 - $19.5 million) which includes $3.4 million of accrued interest expense (December 31, 2014 - $1.0 million). See also *Note 22 – Subsequent Events.*

## 12. CONVERTIBLE DEBENTURES

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

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

On June 30, 2015 the Company secured temporary relief from its May 31, 2015 $0.9 million interest payment as stipulated by the indenture (the "**Indenture**") governing the Debentures by way of a waiver from the holders of more than 50% of the principal amount of the Debentures. The Company failed to make the interest payment due within 30 days of May 31, 2015, and such failure potentially became an Event of Default (as defined in the Indenture) on June 30, 2015, on which date, a majority of the holders of Debentures instructed the trustee under the Indenture to waive the Event of Default. Pursuant to the waiver, the May 31, 2015 interest payment was deferred until the earlier of: (i) December 30, 2015; and (ii) 15 business days after the receipt by GPIC of payment from Bahar Energy Limited of at least US$9.0 million towards the balance of Default Loans due. Subsequent to December 30, 2015, the Company has obtained waiver to defer outstanding accrued interest until the earlier of; 30 days after the next May 31, 2016 interest payment date; and 15 business days (in Alberta, Canada) after the receipt by GPIC of payment from BEL of at least $9,000,000 due under the outstanding Clause 10.3 Default Loan Agreements which were entered into pursuant to Clause 10.3 of the BEL Shareholders' Agreement, between GPIC, as lender, and BEL. See also *Note 22 – Subsequent Events.*

Per the Indenture, deferred interest payments will further accrue interest at 9.0% per annum.

*[The remainder of this page intentionally left blank]*

The following table summarizes the liability and derivative liability components of the convertible debentures:

| | Financial Statement Components | | | |
|---|---|---|---|---|
| *US$000's* | Liability [1] | Derivative Liability [1] | Carrying Value | Principal Amount |
| **Balance December 31, 2014** | **16,683** | **29** | **16,712** | **20,452** |
| Accretion | 1,227 | - | 1,227 | |
| Change in fair value of derivative | - | (27) | (27) | |
| Foreign exchange gain | (2,778) | (2) | (2,780) | (3,309) |
| **Balance December 31, 2015** | **15,132** | **-** | **15,132** | **17,143** |

[1] On May 30, 2012 the Company issued CAD$23.725 million convertible debentures, equivalent to approximately USD$22.9 million. The balance of the liability and derivative liability are net of transaction costs of approximately USD$1.6 million; USD$1.2 million was allocated to the liability and USD$0.4 million related to the derivative liability was expensed.

The liability portion of the Debentures is measured at amortized cost and accreted up to the principal balance at maturity using an effective interest rate of 18.8 percent. The accretion and the interest paid are expensed as interest expense in the consolidated statement of net income (loss). The derivative financial liability is measured at fair value through profit or loss, with adjustments recorded in "changes in fair value of derivative liability".

The fair value of the derivative financial liability is determined using the Binomial valuation model with the following assumptions:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Market price per common share – CAD$ | 0.285 | 1.00 |
| Conversion price per common share – CAD$ | 8.55 | 8.55 |
| Risk-free interest rate range | 1.35% | 1.35% |
| Expected life – years | 1.42 | 2.42 |
| Expected volatility | 67.31% | 60.19% |
| Shares issuable at conversion | 2,775,825 | 2,775,825 |

## 13. SHAREHOLDERS' EQUITY

### Authorized Share Capital

Authorized share capital of the Company consists of 49,900,000 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 December 31, 2015 and December 31, 2014.

Common shares continuity schedule:

| **Outstanding common shares**<br>*US$000's, except for share numbers* | Number of Common Shares | Amount |
|---|---|---|
| **As at December 31, 2014** | 20,048,977 | 74,932 |
| Shares issued per private placement | 2,000,000 | 1,800 |
| Share-based compensation (share awards) | 6,000 | 4 |
| Amortization of restricted share awards | - | 176 |
| Shares issued to directors in settlement of fees | 55,685 | 48 |
| Repurchase of common shares | (5,224) | (3) |
| **As at December 31, 2015** | 22,105,438 | 76,957 |

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Issued | 22,219,810 | 20,158,125 |
| Shares acquired by company | (125,405) | (120,181) |
| Shares re-issued after acquisition | 11,033 | 11,033 |
| Total Outstanding | 22,105,438 | 20,048,977 |

### Per Share Information

**Per share loss**

| *(US$000's, except for per share amounts)* | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Weighted average number of common shares outstanding | 21,982,877 | 19,955,065 |
| Loss for the period | (7,524) | (7,324) |
| Basic and diluted loss per share | ($0.34) | ($0.37) |

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options and convertible debentures is based on quoted market prices for the period that the equity instruments were outstanding. For the year ended December 31, 2015, the 1,187,083 outstanding share options (December 31, 2014 – 1,796,250) and 2,775,825 common shares (December 31, 2014 – 2,775,825) issuable at conversion of debentures were excluded from calculating dilutive earnings per share as they were anti-dilutive.

**Private Placement**

On January 22, 2015 the Company completed a non-brokered private placement of 2,000,000 common shares of the Company at a price of CAD$1.11 per share (USD$0.90) for aggregate gross proceeds of $1.8 million.

**Share Awards**

On February 20, 2015 the Company issued an aggregate of 55,685 common shares of the Company at a deemed price of CAD$1.00 (USD$0.862) per common share, to certain directors of the Company in satisfaction of fees payable to such directors in the aggregate amount of CAD$55,685 (USD$48,000).

On February 23, 2015 the Company completed a grant of 6,000 common shares to an officer of the Company pursuant to a Contingent Restricted Share Grant Agreement dated September 23, 2013. The shares were valued at the closing price on the TSX Venture Exchange at February 23, 2015, that being CAD$0.89 (USD$0.72).

**Common shares issued in consideration of long term loan costs**

Pursuant to the terms of the Loan Agreement, the Company agreed to issue to the Lender common shares of the Company as bonus shares subject to resale restrictions expiring four months from the date of issuance. For the year ended December 31, 2015, the Company had issued nil bonus shares (December 31, 2014 – 1,200,627 bonus shares issued at average price of CAD$3.11 or equivalent USD$2.92 per common share).

**Acquisition of common shares**

In February 2015 the Company acquired 5,224 common shares at an average fair market value of CAD$0.80 per share (February 2014 – 3,265 at fair market value of CAD$3.35) from certain employees as a result of share grants vesting. The Company's share grant agreement provides the opportunity for employees to pay cash or sell to the Company a number of shares equivalent to their statutory withholding tax amount due at vesting date in order to reimburse the Company for remitting the employees' withholding tax obligation to the US Internal Revenue Service. Furthermore, the Company is authorized to withhold from participants any amounts due either in cash or shares for any applicable taxes payable at the minimum statutory rate in respect of the share grant awards.

As at December 31, 2015 and December 31, 2014, the Company did not hold any common shares in treasury.

## 14. SHARE BASED PAYMENTS

| | Year Ended December 31, | |
|---|---|---|
| *US$000's* | 2015 | 2014 |
| Share options | 203 | 416 |
| Share awards | 180 | 1,037 |
| Total share settled | 383 | 1,453 |
| Contingent share-based bonus [(1)] | 103 | - |
| Restricted cash bonus awards – cash settled [(1)] | 75 | (302) |
| Total share-based payments | 561 | 1,151 |

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

The share-based payments recorded by the Company are associated with share options, restricted share grants and share-based bonuses. Share-based payment expenses for the year ended December 31, 2015 were $561 thousand (December 31, 2014 - $1.2 million).

### 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 - 4.0 years |
| Expected volatility range | 40% - 66% |
| Weighted average forfeiture rate | 1.7% |
| Weighted average fair value | $1.81 |

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

**Continuity of Stock Options**

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Number of shares underlying options | Average exercise price (CAD$) | Number of shares underlying options | Average exercise price (CAD$) |
| **Outstanding, beginning of period** | 1,796,250 | 5.88 | 1,825,000 | 5.99 |
| Granted | 400,000 | 0.35 | 140,000 | 3.25 |
| Surrendered | (720,000) | 6.79 | - | - |
| Forfeited | (289,167) | 10.77 | (168,750) | 4.97 |
| **Outstanding, end of period** | 1,187,083 | 2.27 | 1,796,250 | 5.88 |
| **Exercisable, end of period** | 757,083 | 2.30 | 1,285,000 | 6.90 |

On May 7, 2014 the Company completed the award of 140,000 share options to officers and employees at an exercise price of CAD$3.25 per common share. These share options vest 25% at date of grant and 25% on each of the first, second and third anniversaries of the grant date.

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

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

The exercise prices of the outstanding share options ranges from CAD$0.35 to CAD$6.50 per common share with all options expiring on various dates between years 2016 and 2020. The exercisable options as at December 31, 2015 have remaining contractual lives ranging from 0.8 to 4.7 years.

For the year ended December 31, 2015, the Company recorded share options expense of $203 thousand (December 31, 2014 - $416 thousand). The share options expense is offset to the Company's share-based payment reserve.

**Restricted Share Awards**

On February 1, 2012 a 40,000 restricted share grant was awarded and shares issued by the Company to a new officer. The shares vest 25% at grant date and 25% on the anniversary date thereafter in 2013, 2014 and 2015. The shares were valued at CAD$6.00, the closing price of the Company's share on January 31, 2012, with the 25% vested on grant date included in the Company's share-based payments expense for the quarter. The remaining value of the unvested restricted share grant is amortized over the individual vesting periods.

For the year ended December 31, 2015, the Company recorded share-based payments expense related to this restricted award of $nil (December 31, 2014 - $60 thousand).

In September and October 2013 the Company authorized the awards of 186,000 and 230,000 restricted shares, respectively, to certain officers and a director of the Company. The awards were contingent to the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar and implementation of study recommendations.

A total of 410,000 shares were awarded upon the achievement of TPR1, TPR2, the closing by December 31, 2013 of a debt facility and completion of a downhole study for Bahar. These shares vested 50% on each July 1, 2014 and 2015. For the year ended December 31, 2015, the Company recorded share-based payment expense of $176 thousand (December 31, 2014 - $977 thousand) in relation to the issuance of 410,000 shares at the price of CAD$3.00 per common share.

On February 14, 2015 the Company completed the grant of 6,000 common shares to an officer of the Company upon the implementation of recommendations resulting from the downhole study for Bahar. The shares vested at grant date and were valued at the price of CAD$0.89 (USD$0.72) for a total share-based payment of $4 thousand.

For the year ended December 31, 2015, the Company has recorded total share-based payment expense for restricted share awards of $180 thousand (December 31, 2014 - $1.0 million). Expenses associated with restricted share awards are recorded with an offset to share capital of the Company.

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 will 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 deferred vesting date as determined by the board. Also at the option of the board, the contingent bonus may be settled by the Company in cash at vesting date, with the value of common share determined by the closing price of the Company's common shares at such vesting date. These rights have been valued at the price of CAD$0.28 (USD$0.21) for a total share award expense of $103 thousand and accrued as contingent liabilities.

**Restricted Cash Bonus Program**

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

The FVBCB incentive awards vest in three tranches, 1/3 on each January 1 of the year immediately following the grant date and have a cash settlement on such vesting dates. The estimated FVBCB liability is amortized over the three year vesting period with each vesting tranche fully amortized at vesting date. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated FVBCB liability at December 31, 2015 was $184 thousand (December 31, 2014 - $107 thousand).

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

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

The estimated ABCB liability at December 31, 2015 was $nil (December 31, 2014 - $9 thousand).

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

| Grant Date | FVBCB Units | ABCB Units | ABCB Units | | | |
|---|---|---|---|---|---|---|
| | | | Grant Price $CAD | Exercisable | Expiration Date | Remaining Contractual Life - Years |
| June 4, 2012 | 38,334 | 122,500 | 4.80 | 122,500 | June 4, 2017 | 1.4 |
| Sept. 4, 2012 | 3,333 | 10,000 | 5.65 | 10,000 | Sept. 4, 2017 | 1.7 |
| Oct. 5, 2012 | 6,667 | 30,000 | 5.30 | 30,000 | Oct. 5, 2017 | 1.8 |
| Dec. 1, 2012 | 1,200 | 3,600 | 4.80 | 3,600 | Dec. 1, 2017 | 1.9 |
| Dec. 24, 2012 | 90,000 | 160,000 | 3.50 | 120,000 | Dec. 24, 2018 | 3.0 |
| Jan.1, 2015 | 107,866 | - | - | - | - | - |
| | 247,400 | 326,100 | | 286,100 | | |

For the year ended December 31, 2015, the Company recorded restricted cash bonus expense of $75 thousand (December 31, 2014 – ($302) thousand).

| **Share-based payments reserve** | |
|---|---|
| *US$000's* | Amount |
| **Balance December 31, 2014** | 5,263 |
| Stock options share-based payments | 203 |
| **Balance December 31, 2015** | 5,466 |

*[The remainder of this page intentionally left blank]*

## 15. INTEREST INCOME AND INTEREST EXPENSE

| | Year Ended December 31, | |
|---|---|---|
| *US$000's* | 2015 | 2014 |
| Interest income[1] | 3,203 | 1,608 |
| Interest expense – short term loan[2] | (7,067) | (5,384) |
| Interest expense – convertible debentures [3] | (2,930) | (3,104) |
| Interest expense – long term loan | (2,460) | (974) |
| | (9,254) | (7,854) |

(1) Interest income charged to Bahar Energy in connection with Default Loans. Includes transaction costs of $357 thousand for the year ended December 31, 2015 (December 31, 2014 - $654 thousand). See Note 6 - *Short Term Loan Receivables Related Party* and Note 22 - *Subsequent Events*.

(2) Interest expense on short term loan includes interest and amortization of transaction costs. This loan was classified as a long term loan in June 2014 and subsequently reclassified to short term at December 31, 2014 as it was set to mature on December 31, 2015. The expense above includes accretion of $2.5 million and deferred interest of $4.5 million. See Note 10 - *Short Term Loan* and Note 22 - *Subsequent Events*.

(3) Interest expense on convertible debentures includes accretion, coupon interest, amortization of transaction costs, and interest on defaulted payments. See Note 12 – *Convertible Debentures* and Note 22 - *Subsequent Events*.

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | Year Ended December 31, | |
|---|---|---|
| *US$000's* | 2015 | 2014 |
| Receivables from related parties | 1,347 | (1,396) |
| Other receivable | 14 | (3) |
| Prepaid expenses and deposits | 455 | 207 |
| Accounts payable and accrued liabilities | (20) | (906) |
| | 1,796 | (2,098) |

*[The remainder of this page intentionally left blank]*

## 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 35% to the loss before income taxes. The difference results from the following items:

| | Year Ended December 31, | |
|---|---|---|
| *US$000's* | 2015 | 2014 |
| Comprehensive loss before income taxes | (7,524) | (7,324) |
| U.S. federal corporate income tax rate | 35% | 35% |
| Expected income tax (recovery) expense computed at statutory rates | (2,633) | (2,563) |
| Add (deduct) the tax effect of: | | |
| Non-taxable / deductible items | (803) | (1,138) |
| Deferred income tax (recovery) expense per calculation | (3,436) | (3,701) |
| Derecognition of deferred tax asset for current year | 3,436 | 3,701 |
| Deferred income tax (recovery) expense per statements | - | - |
| Current year deferred income taxes consists of: | | |
| Current tax (recovery) | (3,705) | (3,871) |
| Deferred tax (recovery) | 269 | 170 |
| Deferred income tax (recovery) before tax asset derecognition | (3,436) | (3,701) |
| Deferred tax asset not brought to account | 3,436 | 3,701 |
| Deferred income tax expense (recovery) | - | - |

### Deferred Income Tax Asset

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

| **Continuity of net deferred income tax asset (liability)** | | | |
|---|---|---|---|
| *US$000's* | Recognized in profit or loss | Recognized in equity | Total |
| As at December 31, 2014 | 3,701 | 61 | 3,762 |
| Derecognition of deferred tax asset | (3,701) | (61) | (3,762) |
| As at December 31, 2014 after derecognition | - | - | - |
| Current loss carry-forwards | 3,436 | (60) | 3,376 |
| As at December 31, 2015 | 3,436 | (60) | 3,376 |
| Derecognition of deferred tax asset | (3,436) | 60 | (3,376) |
| As at December 31, 2015 after derecognition | - | - | - |

At December 31, 2015, the Company has cumulative loss carry-forward of approximately $51.4 million that will expire between the years 2030 and 2035. The Company expects to be able to fully utilize these losses and the associated deferred tax asset noted above, but has elected to derecognize the cumulative deferred tax asset until such time recovery and offset against future income can be assured.

## 18. EXPENSES BY NATURE

| *US$000's* | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| **ADMINISTRATIVE** | | |
| Employee wages and benefits | 2,251 | 3,288 |
| Share-based payments | 382 | 1,452 |
| Professional service costs | 851 | 1,338 |
| Office, travel and other | 1,564 | 1,393 |
| Total expenses by nature | 5,048 | 7,471 |

## 19. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of December 31, 2015:

| *US$000's* | **2016** | **2017** | **Thereafter** |
|---|---|---|---|
| Operating leases (1) | 20 | - | - |
| Short term loan – interest payments (2) | 4,651 | - | - |
| Short term loan (2) | 27,000 | - | - |
| Long term loan – interest(3) | - | - | 9,681 |
| Long term loan (3) | - | - | 20,835 |
| Debentures – interest payments (4) | 3,132 | 771 | - |
| | 34,803 | 771 | 30,516 |

(1) The Company has extended its lease of office space for its corporate headquarters in the United States through May 2016.

(2) Represents principal and accrued interest on $27 million loan as at December 31, 2015 as stipulated by the amended long term Loan Agreement. This loan was initially classified as a long term loan in 2013 and throughout 2014, and subsequently reclassified to short term at December 31, 2014 as it was set to mature on December 31, 2015. See Note 10 - *Short Term Loan* and Note 22 - *Subsequent Events*.

(3) Represents principal and accrued interest on long term loan with maturity date of June 30, 2018. See Note 11 - *Long Term Loan* and Note 22 - *Subsequent Events*.

(4) The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the December 31, 2015 exchange rate of 1.3840 USD/CAD. See Note 12 – *Convertible Debentures* and Note 22 - *Subsequent Events*.

The Company's commitments to fund the Bahar Project are based on the annual WP&B approved by the board of Bahar Energy. Greenfields' management, through their participation at the project Steering Committee, Management Committee and Bahar Energy board of directors, provides significant input and technical guidance to the proposed annual work plan. Proposed budgets are reviewed and approved by the Management Committee (comprised of representatives from Bahar Energy and SOCAR), Bahar Energy board of directors and Greenfields board of directors. Budget approval by Bahar Energy must be unanimous. Failing unanimity on a work program and budget, the proposal capable of satisfying the minimum work and production obligations under the ERDPSA for the calendar year in question that receives the highest percentage vote is deemed approved. Greenfields' President and Chief Executive Officer currently serve as the Bahar Energy representative to the Steering Committee under the ERDPSA and to the Management Committee for BEOC. The latter has the authority under a Joint Operating

Agreement to exercise day to day supervision and direction of all matters pertaining to the joint operations.

The 2015 approved WP&B for ERDPSA reflected a positive cash flow generated for the Bahar Energy 80% interest in the Bahar Project with SOA funding its 20% share. Based on this estimate, the Company did not make a 2015 loan commitment to fund Bahar Energy other than for its share of the joint venture's TPR1 bonus obligation in the amount of $2 million ($667 thousand net to the Company's interest) which was paid to the State Oil Fund of the Republic of Azerbaijan in May 2015. The 2016 WP&B also reflects a positive cash flow generated for the Bahar Project and therefore the Company has not made additional loan commitments.

As a provision of the BSA, should a shareholder fail to meet its commitments to fund its share of the Bahar Energy's WP&B, that shareholder is deemed to be in default. In June 2014 Baghlan was declared in default with GPIC subsequently funding Baghlan's loan funding obligations to Bahar Energy. As a result of the default, Baghlan lost voting rights on the Bahar Energy board resulting in GPIC assuming full control of Bahar Energy until such time as Baghlan or its replacement as a shareholder in Bahar Energy repays the default loans made by GPIC to Bahar Energy plus associated financing costs and default interest. *See Note 6 – Short Term Loans Receivable Related Party and Note 22 – Subsequent Events.*

## 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 counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from subsidiaries and affiliates for services performed under certain administrative services agreements and from advances made under certain joint venture agreements.

The Company's current accounts receivable and short term loans receivable balances mainly consist of receivables from related parties as result of the funding of administrative expenses and costs in connection with Bahar Energy operations under the ERDPSA. The Company historically has not experienced any collection issues with its accounts receivable and all of the balances due are considered by management to be collectable at December 31, 2015. See *Note 5 – Related Party Transactions, Note 6 - Short Term Loans Receivable Related Party* and *Note 22 – Subsequent Events*.

Cash and cash equivalents consist of bank deposits and short term money market investments held in major United States banks. The Company manages the credit exposure related to short term investments by selecting counterparties based on credit rating and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset-backed commercial paper. 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.

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

| **Credit Risk** *US$000's* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents | 100 | 736 |
| Receivables from related parties | 416 | 1,763 |
| Short term loans receivable from related parties | 26,884 | 20,040 |
| Other receivable | 6 | 20 |
| | 27,406 | 22,559 |

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 $100 thousand does not allow for meeting its current obligations, thereby requiring ongoing restructuring of debt principal and interest payments until such time as the Baghlan's share interest is sold and the Default Loan is repaid to the Company, the timing or likelihood of which is uncertain. See *Note 22 – Subsequent Events*.

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

The Company's financial liabilities as at December 31, 2015 and December 31, 2014 arose primarily from corporate obligations related to the management of its participation in the Bahar Energy joint venture. Payment terms on the Company's 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:

| **Liquidity Risk** | December 31, 2015 | | | | December 31, 2014 |
|---|---|---|---|---|---|
| *US$000's* | Within 1 year | Within 1 – 3 years | Over 3 years | Total | Total |
| Accounts payable and accrued liabilities | 1,512 | 287 | - | 1,799 | 826 |
| Short term loan – interest | 4,651 | - | - | 4,651 | 5,384 |
| Short term loan | 27,000 | - | - | 27,000 | 25,000 |
| Long term loan – interest (1) | - | 9,681 | - | 9,681 | 10,928 |
| Long term loan (1) | - | 20,835 | - | 20,835 | 18,493 |
| Debentures - interest (2) | 3,132 | 771 | - | 3,903 | 4,602 |
| Debentures | - | 17,143 | - | 17,143 | 20,452 |
| | 36,295 | 48,717 | - | 85,012 | 85,684 |

(1) The long term note payable and associated accrued interest has a maturity date of June 30, 2018. See Note 11 - *Long*

*Term Loan* and Note 22 - *Subsequent Events*.
(2) The coupon interest payments are denominated in Canadian Dollars. The USD value of the scheduled interest payments has been calculated at the December 31, 2015 exchange rate of 1.3840 USD/CAD. See Note 12 – *Convertible Debentures* and Note 22 - *Subsequent Events*.

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.

At December 31, 2015 and December 31, 2014 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.

At December 31, 2015 and December 31, 2014, 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.

At December 31, 2015 the sensitivity in net earnings for each one percent change in interest rates is not significant.

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### Fair value of financial instruments

The fair values of financial instruments as at December 31, 2015 and December 31, 2014 are disclosed below by financial instrument category as follows:

| | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| *US$000's* | Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Assets at FVTPL** | | | | | |
| Cash and cash equivalents | 1 | 100 | 100 | 736 | 736 |
| **Loans and receivables** | | | | | |
| Receivables from related party (a) | - | 416 | 416 | 1,763 | 1,763 |
| Short term loans receivable related party | | 26,884 | 26,884 | 20,040 | 20,040 |
| Other receivables | - | 6 | 6 | 20 | 20 |
| **Other financial liabilities** | | | | | |
| Accounts payable and accrued liabilities | - | 6,635 | 6,635 | 1,946 | 1,946 |
| Short term loan | - | 27,000 | 27,000 | 22,456 | 22,456 |
| Long term loan and interest payable | | 24,269 | 24,269 | 19,466 | 19,466 |
| Convertible debentures | - | 15,132 | 15,132 | 16,713 | 16,713 |
| **Liabilities at FVTPL** | | | | | |
| Share based bonus | 2 | 287 | 287 | 116 | 116 |
| Derivative liability | 2 | - | - | 29 | 29 |

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

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.

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## 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 or capital spending to manage current and projected working capital levels. *See Note 2 – Basis of Presentation and Going Concern.*

| **Composition of the Company's capital structure** *US$000's* | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Working Capital | (6,478) | (1,466) |
| Long term loan, convertible debt and shareholders' equity | 55,600 | 57,674 |
| Ratios of working capital to long term loan, convertible debt and shareholders' equity [1] | (12%) | (3%) |

[1] Convertible debt is combined with shareholder's equity due to the Company's right to settle debt by issuing shares.

## 22. SUBSEQUENT EVENTS

### Maturity Date on Senior Debt Extended

The Company received extensions of the maturity date through third and fourth amendments to the Loan Agreement dated November 25, 2013 with its Lender until March 15, 2016. Interest will continue to accrue on the principal of the loan at rates ranging from 15% to 20%. Unpaid interest accrued shall bear interest at a rate of 17.04% until maturity date. The third and fourth extensions allowed the Company additional time to evaluate refinancing options, including negotiating the restructuring of the loan principal amount of $27 million plus accrued and unpaid interest originally due December 31, 2015, and to initiate the Acquisition and Restructuring Transaction described below.

### Acquisition of Remaining 66.67% Interest in BEL and Restructuring of Senior Debt

On March 8, 2016 Greenfields announced that, through its wholly-owned subsidiary, GPIC, it has entered into a share purchase agreement with Baghlan and its Liquidator, pursuant to which, GPIC has agreed to purchase Baghlan's 66.67% interest in BEL and Baghlan's interest in a shareholder loan receivable due from BEL to Baghlan, collectively the Acquisition. The aggregate consideration payable by GPIC for the Acquisition includes a cash payment of $6.0 million, and a release and discharge of liabilities, claims and demands in relation to certain default loan amounts and any and all other obligations, liabilities, claims or demands of any kind owed to BEL, BEOC and/or GPIC by Baghlan, together the Default Obligations. The Company estimates the accrued Default Obligations to be an aggregate of $57.6 million. Upon completion of the Acquisition, BEL will become a wholly-owned subsidiary of GPIC. The cash consideration of $6.0 million has been placed into escrow pending satisfaction of certain conditions to the completion of the Acquisition including, without limitation, receipt of the approval of the TSXV and other necessary regulatory approvals.

In order to fund the Acquisition, the Company has agreed to restructure its debt and, in that regard, has signed a Fifth Amending Agreement to the Loan Agreement with its Lender. The Fifth Amending Agreement provides for, among other things: (i) additional funding in the aggregate amount of $7.0 million to satisfy the purchase price in respect of the Acquisition and for working capital purposes; and (ii) an extension of the maturity date under the Loan Agreement from March 15, 2016 to May 16, 2016 in order to facilitate the completion of the Restructuring Transaction.

In consideration of the Lender entering into the Fifth Amending Agreement, the Company has agreed to: (i) obtain the approval of Debentureholders of the 9.00% convertible unsecured subordinated Debentures due May 31, 2017 for the Debenture Conversion of the CAD$23,725,000 aggregate principal amount of Debentures into an aggregate of approximately 33.2 million Common Shares in the capital of the Company; (ii) issue, in connection with the completion of the restructuring, up to an aggregate of 2,394,000 Common Shares for every $1,000,000 of principal due to the Lenders under the Loan Agreement; and (iii) issue, in connection with the completion of the restructuring, an equivalent number of Common Share purchase Warrants to the Lenders, collectively, the Restructuring Transaction.

The Debenture Conversion will be implemented upon the approval of the Debentureholders, by way of extraordinary resolution, pursuant to and in accordance with the terms of the indenture governing the Debentures.

The Common Shares to be issued to the Lenders pursuant to the Fifth Amending Agreement will result in: (i) the Company's issued and outstanding capital exceeding its authorized share capital as set forth in the Company's amended and restated memorandum and articles of association; and (ii) the senior Lender owning, directly or indirectly, more than 20% of the issued and outstanding Common Shares which, pursuant to the policies of the TSXV, results in the senior Lender becoming a "Control Person". As a result, the Company is required to obtain shareholder approval with respect to: (i) an increase in the authorized share capital of the Company; and (ii) the Restructuring Transaction, including the creation of the senior Lender as a "Control Person" (the "**Shareholder Resolutions**"). Each of the Shareholder Resolutions must be approved by a majority of the votes of the shareholders present in person or by proxy and voting on the Shareholder Resolution at the meeting called for such purpose, excluding Common Shares held by the senior Lender.

Contemporaneous with the completion of the Restructuring Transaction, the Company anticipates a sixth amendment agreement will be signed extending the maturity date under the Loan Agreement to December 31, 2017. Both the Acquisition and Restructuring Transaction remain subject to approval in their entirety by the TSXV.

**Subordinated Debt Settlement**

On April 12, 2016 the Company announced that it has entered into a definitive agreement ("**Definitive Agreement**") with Heaney to settle all amounts outstanding under the Subordinated Revolving Loan Agreement dated June 27, 2014, as amended, with an original maturity date of June 30, 2018. Under the terms of the Definitive Agreement, Greenfields will issue 11,500,000 common shares of the Company to Heaney in full satisfaction of all amounts outstanding under the loan agreement, including principal in the amount of $20,834,705 and accrued interest.

The issuance of the Common Shares to Heaney is conditional upon, among other things, receipt of approval from the shareholders of Greenfields to increase the authorized share capital of the Company, and approval of the TSXV. In addition to the Common Shares to be issued to Heaney, Greenfields has agreed to pay an agent a success fee for negotiating the terms of the Definitive Agreement. The success fee is comprised of a payment of $1,000,000 to the agent and the issuance of 500,000 Common Shares to the agent upon the successful closing of the transactions contemplated by the Definitive Agreement.