Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

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

	Notes	As at September 30, 2018	As at December 31, 2017
Assets			
Current Assets			
Cash and cash equivalents		206	741
Accounts receivable	4	9,022	8,702
Accounts receivable related party	5	959	918
Advances for operating activities		1,216	830
Prepaid expenses and deposits		297	142
Inventories	6	2,592	2,545
		14,292	13,878
Non-Current Assets			
Property and equipment, net	7	184,311	186,719
		198,603	200,597
Liabilities and Equity			
Current Liabilities			
Accounts payable and accrued liabilities	8	11,450	14,308
Accounts payable related parties	5	2,313	2,049
Short term loans related parties	9	698	615
Short term loans	9	3,151	2,779
		17,612	19,751
Non-Current Liabilities			
Long term loan related party	10	52,631	46,946
Shareholders' Equity	12		
Common shares		180	180
Paid in capital		104,230	104,230
Share-based payments reserve		5,608	5,589
Surplus		18,342	23,901
Total Shareholders' Equity		128,360	133,900
(Basis of presentation and going concern – Note 2 and Commitments and contingencies – Note 17)		198,603	200,597

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

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

(signed) "Michael J. Hibberd"
Michael J. Hibberd
Director

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *Restated **	2018	2017 *Restated **
Revenues				
Crude oil and natural gas *(Note 15)*	8,046	6,491	24,180	22,547
Expenses				
Operating *(Note 15)*	5,567	4,803	15,704	16,108
Marketing and transportation	24	25	82	83
Administrative	702	674	2,932	2,298
Depreciation and amortization *(Note 7)*	1,814	2,194	4,897	7,169
	8,107	7,696	23,615	25,658
Income (Loss) from operating activities	(61)	(1,205)	565	(3,111)
Interest expense *(Note 14)*	(2,011)	(1,464)	(6,139)	(4,277)
Foreign exchange gain (loss)	(5)	(20)	15	(38)
Change in fair value of warrants *(Note 11)*	-	306	-	546
Net loss	(2,077)	(2,383)	(5,559)	(6,880)
Total comprehensive loss	(2,077)	(2,383)	(5,559)	(6,880)
Per share				
Loss per share, basic and diluted *(Note 12) ***	($0.12)	($0.13)	($0.31)	($0.42)

* The term *Restated* was added to the 2017 comparative information due to the reclassification of impairment of account receivable expense, previously reported on a separate expense line, into operating expense, both within the same group of expenses. The reclassification was made to conform to the basis of presentation for the current year and resulted in no change to total expenses, loss from operating activities, total comprehensive loss and loss per share reported for the three and nine months ended September 30, 2017. See Protocol on Carry of SOA Certain Costs in *Note 15 – Segment Reporting*.

** Loss per share, basic and diluted has been retrospectively adjusted to reflect the consolidation (the "**Consolidation**") of common shares approved by the shareholders of the Company.

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

GREENFIELDS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited, US$000's

	Nine Months Ended September 30,	
	2018	2017
Common shares *(Note 12)*		
Balance, beginning of period	180	157
Issued pursuant to private placements	-	21
Issued in satisfaction of debt	-	2
Balance, end of period	180	180
Paid in capital		
Balance, beginning of period	104,230	100,852
Issued pursuant to private placements	-	3,041
Issued in satisfaction of debt	-	337
Balance, end of period	104,230	104,230
Share-based payments reserve		
Balance, beginning of period	5,589	5,508
Share-based payments	19	66
Balance, end of period	5,608	5,574
Surplus		
Balance, beginning of period	23,901	32,969
Net loss for the period	(5,559)	(6,880)
Balance, end of period	18,342	26,089
Total Shareholders' Equity	128,360	136,073

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *Restated **	2018	2017 *Restated **
Operating Activities				
Net loss for the period	(2,077)	(2,383)	(5,559)	(6,880)
Items not affecting cash:				
Share-based payments *(Note 13)*	-	-	-	30
Share-based compensation *(Note 13)*	(50)	22	(55)	37
Gain on sale of property and equipment	-	-	(253)	-
Depreciation and amortization	1,814	2,194	4,897	7,169
Interest expense *(Note 14)*	2,011	1,464	6,139	4,277
Unrealized foreign exchange (gain) loss	8	15	(13)	31
Change in fair value of warrants *(Note 11)*	-	(306)	-	(546)
Cash Provided by operating activities before change in operating working capital	1,706	1,006	5,156	4,118
Change in operating working capital *(Note 16)*	(1,804)	591	(878)	(1,072)
Cash Provided by (Used in) Operating Activities	(98)	1,597	4,278	3,046
Financing Activities				
Proceeds from issue of common shares *(Note 12)*	-	-	-	3,062
Proceeds from short term loans	-	-	-	70
Cash Provided by Financing Activities	-	-	-	3,132
Investing Activities				
Property and equipment	(848)	(778)	(2,519)	(2,257)
Change in working capital *(Note 16)*	(981)	(1,005)	(2,296)	(3,289)
Cash Used in Investing Activities	(1,829)	(1,783)	(4,815)	(5,546)
Effect of exchange rates on changes in cash	2	(4)	2	(10)
Increase (decrease) in Cash and Cash Equivalents	(1,925)	(190)	(535)	622
Cash and Cash Equivalents, beginning of period	2,131	2,173	741	1,361
Cash and Cash Equivalents, end of period	206	1,983	206	1,983

* The term *Restated* was added to the 2017 comparative information due to the reclassification of impairment of account receivable expense, previously reported on a separate expense line, into operating expense, both within the same group of expenses. The reclassification was made to conform to the basis of presentation for the current year and resulted in no change to total expenses, loss from operating activities, total comprehensive loss and loss per share reported for the three and nine months ended September 30, 2017. See Protocol on Carry of SOA Certain Costs in *Note 15 – Segment Reporting*.

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

1. INCORPORATION AND NATURE OF OPERATIONS

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

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

2. BASIS OF PRESENTATION AND GOING CONCERN

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**"). The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share-based compensation transactions which are measured at fair value. The presentation and functional currency of the Company is the United States dollar ("**USD**") and all values are presented in thousands of US dollars except where otherwise indicated.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2017, prepared in accordance with *International Financial Reporting Standards* ("**IFRS**") as issued by the *International Accounting Standards Board ("**IASB**")*. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017.

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

These condensed consolidated financial statements were approved for issue by the Audit Committee of the Company's Board of Directors on October 30, 2018.

The Company is producing, developing and exploring oil and gas properties which require extensive capital investments. The recovery of the Company's investment is dependent upon its ability to complete the development of oil and gas properties which includes meeting the related financing requirements. For the three and nine months ended September 30, 2018, the Company reported a net loss of $2.1 million and $5.6 million, respectively, (September 30, 2017 – net loss of $2.4 million and $6.9 million, respectively) and has an accumulated surplus of $18.3 million as at September 30, 2018. However, the Company has a negative working capital balance of approximately $3.3 million as at September 30, 2018. Consequently, the Company's ability to continue as a going concern depends on the Company being successful in raising additional capital through debt financing or issuing equity on favorable terms; collecting amounts due the Company from third parties; meeting ongoing debt obligations; and ultimately, achieving profitable operations.

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

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

3. NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS

There were certain new standards, amendments and interpretations effective from January 1, 2018, which the Company applied for the first time. For the three and nine months ended September 30, 2018, the Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The most significant standards applied for first time include:

IFRS 9 "Financial Instruments"

The standard, which replaces IAS 39 *Financial Instruments: Recognition and Measurement,* 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 Company concluded IFRS 9, effective for annual reporting periods beginning January 1, 2018, did not have a material impact on its consolidated financial statements.

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 Company concluded that IFRS 15, effective for annual reporting periods beginning January 1, 2018, did not have a material impact on its consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment"

The IASB issued amendments to IFRS 2, effective January 1, 2018, to address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The Company concluded the Amendments to IFRS 2, effective for annual reporting periods beginning January 1, 2018, did not have a material impact on its consolidated financial statements.

4. ACCOUNTS RECEIVABLE

Accounts receivable are mainly from sales of crude oil and gas under the ERDPSA. The receivables are non-interest bearing and generally collected on 30 to 90 day terms. As at September 30, 2018, the Company had the following outstanding accounts receivable balances:

US$000's	September 30, 2018	December 31, 2017
Crude oil	3,207	2,172
Natural gas	3,704	5,559
Other receivables [(1)]	2,111	971
	9,022	8,702

[(1)] Includes accounts receivable related to the sale of casing (See *Note 7 – Property and Equipment, Net*); value added taxes paid in advance on natural gas sales; other employee and miscellaneous receivables.

5. RELATED PARTY ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable related party

As at September 30, 2018, the Company had a related party receivable balance of $1.0 million (December 31, 2017 - $0.9 million) in connection with Protocol Proceeds. See *Protocol on Carry of SOA Certain Costs in Note 15 – Segment Reporting*.

US$000's	
SOA related party receivable at December 31, 2017	918
Protocol Proceeds accrued during the period	3,199
Protocol Proceeds collected during the period	(3,158)
SOA Related Party Receivable at September 30, 2018	959

Accounts payable related parties

As at September 30, 2018, the Company had an accounts payable related parties balance of $2.3 million (December 31, 2017 - $2.0 million). The balance consists of funds owed to Vitol's subsidiaries in connection with a $1.4 million restructuring fee under the Twelfth Amending Agreement (see *Note 10 - Long Term Loan Related Party*) and $0.9 million in fees for technical consulting services.

6. INVENTORIES

At September 30, 2018, the Company had operating inventories of $2.6 million (December 31, 2017 - $2.5 million) consisting of spare parts, consumables, lubricants and fuel. Inventories are stated at the lower of cost or net realizable value.

7. PROPERTY AND EQUIPMENT, NET

US$000's	Oil and Gas Properties	Corporate and Other	Total
As at December 31, 2017	199,524	347	199,871
Additions	4,815	-	4,815
Disposals	(2,326)	-	(2,326)
As at September 30, 2018	202,013	347	202,360
Less: Accumulated DD&A			
As at December 31, 2017	12,812	340	13,152
Additions	4,894	3	4,897
As at September 30, 2018	17,706	343	18,049
Net property and equipment			
As at December 31, 2017	186,712	7	186,719
As at September 30, 2018	184,307	4	184,311

Per agreement between BEOC, SOA and SOCAR, in May 2018 BEOC completed the sale of casing to SOCAR Drilling Trust ("SDT") for consideration of $2.6 million. SDT, a SOCAR subsidiary currently providing drilling services to the Bahar Project, requested BEOC's assistance to dispose of casing originally acquired for the Gum Deniz Field and which has not been programmed for use in the near term. The above indicated agreement also stipulates the consideration from the sale be used exclusively for the settlement of BEOC's outstanding payables, mainly to SDT, other SOCAR service providing entities and other vendors.

In connection with the sale of casing, the Company recorded a gain of $253 thousand which is reflected as a reduction of operating expenses in the statement of comprehensive loss for the nine months ended September 30, 2018.

Legal title to property and equipment

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

US$000's	September 30, 2018	December 31, 2017
Trade accounts payable [1]	7,607	11,391
Accrued liabilities	3,843	2,917
	11,450	14,308

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

9. SHORT TERM LOANS

Short Term Loans Related Parties

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

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

US$000's	September 30, 2018	December 31, 2017
Related Party Loans - Insiders	550	550
Unamortized deferred loan costs [1]	-	(20)
Carrying value short term loans related parties	550	530
Accrued interest [1]	148	85
Short term loans related parties	698	615

[1] For the nine months ended September 30, 2018, the Company recorded total interest expense (including amortization of deferred loan costs) of $83 thousand (September 30, 2017 - $98 thousand)

Short Term Loans

In September 2016, the Company secured additional funding from a consortium of lenders ("**Consortium of Lenders**") in the amount of $2.5 million (the "**Additional Loans**"). The terms and consideration paid for the Additional Loans are similar to the Related Party Loans – Insiders. The Additional Loans are measured at amortized cost to reflect the accretion of the share consideration paid, thereby the aggregation of accrued interest and accreted transaction costs results in an effective interest rate of 27.7%. In July 2018 the maturity of the loans was extended to December 31, 2018. The balance of Additional Loans is as follows:

US$000's	September 30, 2018	December 31, 2017
Additional Loans	2,475	2,475
Unamortized deferred loan costs [1]	-	(90)
Carrying value of short term loans	2,475	2,385
Accrued interest [1]	676	394
Additional Loans	3,151	2,779

[1] For the nine months ended September 30, 2018, the Company recorded total interest expense (including amortization of deferred loan costs) of $372 thousand (September 30, 2017 - $447 thousand).

10. LONG TERM LOAN RELATED PARTY

On August 9, 2016, the Company executed the Ninth Amending Agreement to the Loan Agreement with Vitol Energy (Bermuda) Ltd. which became effective August 19, 2016, in order to restructure the balances due under an existing term loan (the "**Term Loan**") into a new loan (the "**New Loan**") with maturity date of March 31, 2018 (the "**Maturity Date**"). The New Loan was secured by first priority liens on the existing and

future assets of the Company and the Guarantors. Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, the New Loan had a principal balance of $41.1 million with interest accruing at the rate of 12% per annum. Interest was contractually due at maturity, thereby the Company included accrued interest in the carrying value of the loan. The New Loan was subject to certain mandatory prepayments, carried no additional fees or transaction costs and is measured at amortized cost resulting in an effective interest rate of 12%.

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

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

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

US$000's	September 30, 2018	December 31, 2017
Long term loan related party	47,146	47,146
Unamortized debt issue costs (1)	(118)	(1,176)
Carrying value of long term loan related party	47,028	45,970
Accrued interest (1)	5,603	976
Long term loan related party	52,631	46,946

(1) For the nine months ended September 30, 2018, the Company recorded total interest expense (including amortization of debt issue costs) of $5.7 million (September 30, 2017 - $3.7 million).

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd., executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and

unpaid interest under the Loan Agreement as at October 31, 2018, will be converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement is extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (iv) payment of the 3% restructuring fee due the Lender under the Twelfth Amending Agreement is extended from November 1, 2018 to January 31, 2019. See *Note 20 - Subsequent Events*.

11. WARRANTS

Pursuant to the terms of the Loan Agreement and Ninth Amending Agreement, on September 9, 2016 the Company issued 8,597,992 common share purchase warrants to the lenders under the Vitol loan. On October 31, 2017, the Company and Vitol executed the Twelfth Amending Agreement to the Loan Agreement pursuant to which all the outstanding common share purchase warrants were terminated.

For the three and nine months ended September 30, 2018, the Company recorded $nil (September 30, 2017 – income of $306 thousand and $546 thousand, respectively) in relation to changes in the fair value of warrants.

12. SHAREHOLDER'S EQUITY

Authorized Share Capital

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

As at September 30, 2018, the authorized share capital of the Company consists of 999,990,000 common shares at a par value of US $0.01 each and 100,000 preferred shares at a par value of US $0.001 each.

Common Shares

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

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 Company and preferential rights, of each series without further vote or action by shareholders.

There were no preferred shares issued and outstanding at September 30, 2018 and December 31, 2017.

Common shares and paid in capital continuity schedule:

Outstanding common shares *US$000's, except for share amounts*	Number of Common Shares	Amount
As at December 31, 2017	17,980,781	104,410
Issued during the period	nil	-
As at September 30, 2018	17,980,781	104,410

Per Share Information

(US$000's, except for share and per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average number of common shares outstanding	17,980,781	17,980,781	17,980,781	16,325,642
Loss for the period	(2,077)	(2,383)	(5,559)	(6,880)
Basic and diluted loss per share	($0.12)	($0.13)	($0.31)	($0.42)

The average market value of the Company's common shares used for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period that the equity instruments were outstanding. For the nine months ended September 30, 2018, 177,000 outstanding share options (September 30, 2017 – 177,000 share options) were excluded from calculating dilutive loss per share as they were anti-dilutive. As at September 30, 2018 and December 31, 2017, the Company did not hold any common shares in treasury.

Private Placements

On May 12, 2017, the Company completed a non-brokered private placement of 239,863 common shares of the Company at a price of CAD$2.00 per share (USD$1.46) for aggregate gross proceeds of $350 thousand. This placement included the participation of insiders of the Company to whom a total of 119,863 common shares of the Company were issued for proceeds of $175 thousand.

Also, on June 27, 2017, the Company completed a brokered private placement of 1,825,820 common shares of the Company at a price of CAD$2.00 per share (USD$1.48) for aggregate gross proceeds of $2.7 million.

At the time of these private placements, the lenders waived their rights to the vesting of new warrants relative to the new common shares issued to the investors. All outstanding warrants were subsequently terminated on October 31, 2017.

Common shares issued in satisfaction of debt

On June 27, 2017, the Company executed a debt settlement agreement with certain employees and consultants of the Company. Through this settlement the Company issued a total of 229,180 common shares of the Company in satisfaction of balances payable in the amount of $339 thousand. The common shares were issued at the deemed price of CAD$2.00 (USD$1.48) per common share.

13. SHARE BASED PAYMENTS

The share-based payments recorded by the Company are associated with share options and share-based cash settled bonuses for employees and directors. Share-based payment expenses for the three and nine months ended September 30, 2018 were ($50) thousand and ($55) thousand, respectively (September 30, 2017 – $22 thousand and $67 thousand, respectively).

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
US$000's	2018	2017	2018	2017
Third party services - share settled	-	-	-	30
Employees and Directors				
Share settled - Share options	6	17	19	66
Cash settled - Contingent bonus [1]	(19)	(6)	(29)	(44)
Cash settled - Cash bonus awards [1]	(37)	11	(45)	15
Subtotal	(50)	22	(55)	37
Total share-based payments	(50)	22	(55)	67

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

Share Options

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 share option is estimated on the date of the respective award using an option pricing model. During 2017, the Company used the following assumptions in the fair value estimation of awarded share options:

Risk-free interest rate range	0.5% - 2%
Expected life range	1.1 - 5.0 years
Expected volatility range	40% - 87%
Weighted average forfeiture rate	1.3%
Weighted average fair value	$13.60

Continuity of Share Options

	September 30, 2018		December 31, 2017	
	Number of shares underlying options	Average exercise price (CAD$)	Number of shares underlying options	Average exercise price (CAD$)
Outstanding, beginning of period	177,000	14.85	112,000	20.90
Granted	-	-	65,000	2.90
Outstanding, end of period	177,000	14.85	177,000	14.85
Exercisable, end of period	114,500	21.51	82,000	28.88

On January 1, 2017, the Company granted options to acquire 65,000 common shares of the Company pursuant to its stock option plan, 45,000 of which were granted to officers of the Company. The options are exercisable at a price of CAD$2.90 per common share and will expire five years from the grant date. The options will vest 1/2 upon January 1, 2018 and 1/2 upon January 1, 2019.

The exercise prices of the outstanding share options ranges from CAD$2.40 to CAD$65.00 per common share with all options expiring on various dates between years 2018 and 2022. The exercisable options as at September 30, 2018 have remaining contractual lives up to 3.3 years.

For the three and nine months ended September 30, 2018, the Company recorded share options expense of $6 thousand and $19 thousand, respectively (September 30, 2017 - $17 thousand and $66 thousand, respectively). The corresponding share options expense is recorded within the Company's share-based payment reserve.

Contingent Bonus

On January 12, 2015, the Company awarded the right to 50,049 common shares to certain employees and consultants as a contingent bonus. The right to such common shares was set to vest on the first to occur of the following vesting dates: January 1, 2016; the date of a change of control of the Company; or such earlier vesting date as determined by the board. Also, at the option of the board, the contingent bonus may be settled by the Company in cash at the settlement date, with the value of common share determined by the closing price of the Company's common shares at such settlement date. The payment date (the "**Deferred Payment Date**") for the contingent bonus has been deferred until the first to occur of the following: January 1, 2019; the date of a change of control of the Company; or such earlier Payment Date as determined by the board.

At the award date, these rights were valued at the price of CAD$2.80 (USD$2.10) for a total share award expense of $103 thousand which was accrued as a contingent liability. The liability is also fair valued at each reporting date with adjustments recorded through profit and loss. The estimated liability for the contingent bonus at September 30, 2018 was $25 thousand (December 31, 2017 - $54 thousand). For the three and nine months ended September 30, 2018, the Company recorded a decrease of $19 thousand and $29 thousand, respectively (September 30, 2017 – decrease of $6 thousand and $44 thousand, respectively) in the fair value of the contingent bonus liability.

Restricted Cash Bonus Program

In June 2012, the Company established a Restricted Cash Bonus Program consisting of two cash settled incentives awarded in bonus units. The first incentive is the Full Value Based Cash Bonus ("**FVBCB**") with the cash settlement value of a bonus unit equal to the current market price of a common share of the Company on specific vesting dates. The second incentive is the Appreciation Based Cash Bonus ("**ABCB**") which is settled in cash when an awardee makes a call on vested bonus units with the value of the award calculated as the difference between the current market price of a common share of the Company at call

date and the original grant price per bonus unit. The program does not grant any entitlement to common shares or other equity interest in the Company.

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

On January 20, 2015, the Company awarded 10,787 FVBCB units (the "**Deferral Bonus Units**") to directors, officers and employees as incentive for the deferral of 9,453 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 payment date (the "**Deferred Payment Date**") for both awards has been deferred until the first to occur of the following: January 1, 2019; the date of a change of control of the company; or such earlier Payment Date as determined by the board. The estimated FVBCB liability at September 30, 2018 was $184 thousand (December 31, 2017 - $184 thousand).

The ABCB incentive awards vested 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 an 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 adjustments recorded through profit and loss. The estimated ABCB liability at September 30, 2018 was $nil (December 31, 2017 - $nil). The following table summarizes the terms of outstanding units awarded under the Restricted Cash Bonus Program:

		ABCB				
Grant Date	FVBCB Units	Units	Grant Price $CAD	Exercisable	Expiration Date	Remaining Contractual Life - Years
June 4 to Dec 1, 2012	4,953	[1]	-	-	-	-
Dec. 24, 2012	9,000	16,000	35.00	16,000	Dec. 24, 2018	0.2
Jan.1, 2015	10,787	-	-	-	-	-
	24,740	16,000		16,000		

(1) A total of 16,610 ABCB units expired on various dates in 2017.

For the three and nine months ended September 30, 2018, the Company recorded restricted cash bonus expense of $nil (September 30, 2017 – $nil).

Fair Value Director Cash Bonus Program

On October 13, 2016, the Company established a Fair Value Director Cash Bonus Program ("**FVDCB**") for the board of directors consisting of cash settled incentives awarded in bonus units. Subsequently, the Company awarded 125,000 FVDCB units with the cash settlement value of a bonus unit equal to the average Canadian dollar denominated value of a common share for the five trading days prior to filing a call notice. The call notice is used to redeem a vested unit. However, in the case of a monetization event (as defined below), the bonus unit will equal the same amount a shareholder receives for a common share. A monetization event means: (1) the acquisition by a third party of all or substantially all the shares of the Company; (2) an amalgamation, arrangement, merger or other consolidation of the Company with another company; (3) a liquidation, dissolution or winding-up of the Company; or (4) a sale, lease or other disposition of all or substantially all of the assets of the Company. Notwithstanding the provisions of the FVDCB Program, payment of vested units will be deferred and will only occur after the director ceases to be a

director of Greenfields.

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

The estimated FVDCB liability at September 30, 2018 was $58 thousand (December 31, 2017 - $102 thousand). The liability is amortized over the three years vesting period and is also fair valued at each reporting date with adjustments recorded through profit and loss. For the three months and nine months ended September 30, 2018, the Company recorded decreases of $37 thousand and $45 thousand, respectively (September 30, 2017 – increases of $11 thousand and $15 thousand, respectively) in the fair value of the FVDCB liability.

Key Employee Contingent Incentive Plan Award

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

The KECIP program does not grant any entitlement to common shares or other equity interest in the Company. The KECIP units vest 25% at the date of grant and 25% on each of the first, second and third anniversaries of the grant date. On May 12, 2017 and March 1, 2018, the Company awarded additional 73,000 and 50,000 KECIP units, respectively, to two employees and two contractors. The total KECIP units issued at September 30, 2018 aggregated to 1,194,750 (December 31, 2017 – 1,201,500). No expense has been recorded for the issuance of the KECIP units as of September 30, 2018, as the related cash settlement value can only be determined when a monetization event takes place.

14. INTEREST EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
US$000's	2018	2017	2018	2017
Interest expense – long term loan [(1)]	1,940	1,273	5,685	3,731
Interest expense – short term loans [(2)]	71	191	454	546
	2,011	1,464	6,139	4,277

[(1)] Represents interest expense (including the accretion of debt issue costs) related to the long-term loan related party. Effective October 31, 2018, under a new amending agreement with the Lender, the maturity of this loan was extended until January 31, 2021. See *Note 20 - Subsequent Events.*

[(2)] Represents interest expense (including the amortization of deferred loan costs) related to the current short-term loans. In July 2018, the lenders agreed to extend the maturity of short term loans from July 31, 2018 to December 31, 2018.

15. SEGMENT INFORMATION

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

Total Assets and Liabilities

(US$000's)	September 30, 2018			December 31, 2017		
	Azerbaijan	Corporate	Total	Azerbaijan	Corporate	Total
Current assets	13,833	459	14,292	13,121	757	13,878
Capital assets	184,306	5	184,311	186,711	8	186,719
Total assets	198,139	464	198,603	199,832	765	200,597
Current liabilities	(8,464)	(9,148)	(17,612)	(13,324)	(6,427)	(19,751)
Non-current liabilities	-	(52,631)	(52,631)	-	(46,946)	(46,946)
Total liabilities	(8,464)	(61,779)	(70,243)	(13,324)	(53,373)	(66,697)

Capital Expenditures

	Three Months Ended					
(US$000's)	September 30, 2018			September 30, 2017		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	1,829	-	1,829	1,783	-	1,783

	Nine Months Ended					
(US$000's)	September 30, 2018			September 30, 2017		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
	4,815	-	4,815	5,546	-	5,546

Consolidated Statements of Comprehensive Income (Loss) by Segment

	Three Months Ended					
(US$000's)	September 30, 2018			September 30, 2017 *Restated **		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	8,046	-	8,046	6,491	-	6,491
Expenses						
Operating	5,567	-	5,567	4,803	-	4,803
Marketing and transportation	24	-	24	25	-	25
Administrative	-	702	702	-	674	674
Depreciation and amortization	1,813	1	1,814	2,193	1	2,194
	7,404	703	8,107	7,021	675	7,696
Income (loss) from operating activities	642	(703)	(61)	(530)	(675)	(1,205)
Interest expense	-	(2,011)	(2,011)	-	(1,464)	(1,464)
Foreign exchange loss	-	(5)	(5)	-	(20)	(20)
Fair value of warrants issued	-	-	-	-	306	306
Net income (loss)	642	(2,719)	(2,077)	(530)	(1,853)	(2,383)

	Nine Months Ended					
(US$000's)	September 30, 2018			September 30, 2017 *Restated **		
	Azerbaijan	Corporate and Other	Total	Azerbaijan	Corporate and Other	Total
Revenues						
Crude oil and natural gas	24,180	-	24,180	22,547	-	22,547
Expenses						
Operating	15,957	(253)	15,704	16,108	-	16,108
Marketing and transportation	82	-	82	83	-	83
Administrative	-	2,932	2,932	-	2,298	2,298
Depreciation and amortization	4,895	2	4,897	7,167	2	7,169
	20,934	2,681	23,615	23,358	2,300	25,658
Income (loss) from operating activities	3,246	(2,681)	565	(811)	(2,300)	(3,111)
Interest expense	-	(6,139)	(6,139)	-	(4,277)	(4,277)
Foreign exchange gain(loss)	-	15	15	-	(38)	(38)
Fair value of warrants issued	-	-	-	-	546	546
Net income (loss)	3,246	(8,805)	(5,559)	(811)	(6,069)	(6,880)

* The term *Restated* was added to the 2017 comparative information due to the reclassification of impairment of account receivable expense, previously reported on a separate expense line, into operating expense, both within the same group of expenses. The reclassification was made to conform to the basis of presentation for the current year and resulted in no change to total expenses, *income (*loss) from operating activities, total comprehensive loss and loss per share reported for the three and nine months ended September 30, 2017. See Protocol on Carry of SOA Certain Costs.

Revenues

BEL's entitlement share of production from crude oil, natural gas and natural gas liquids (together the "**Petroleum**") recognized as revenue represents its share of both cost recovery petroleum and profit petroleum and the allocation of SOA's 20% share of cost recovery petroleum as stipulated by the ERDPSA Carry 1 recovery provisions. For the three and nine months ended September 30, 2018 and 2017, the Company recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Three Months Ended September 30		Nine Months Ended September 30	
US$000's	2018	2017	2018	2017
BEL's share of Petroleum entitlement production	6,561	5,193	19,660	18,038
SOA's cost recovery Petroleum production	1,485	1,298	4,520	4,509
BEL's entitlement revenue	8,046	6,491	24,180	22,547

Protocol on Carry of SOA Certain Costs

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

recovery for the overfunding of Petroleum Costs could be negotiated.

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

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

As previously reported, the Company recorded SOA's 20% share of Petroleum Costs overfunded by BEL as impairment of account receivable expense of $0.7 million and $3.0 million, respectively, for the three and nine months ended September 30, 2017. During the year ended December 31, 2017, and prior to filing of the audited financial statements, the Company changed its characterization of impairment of account receivable expense to coincide with the provisions of the Protocol which was executed in April 2017.

Accordingly, the Company is recording SOA's 20% share of costs as if SOA is still under Carry 1 provisions, net of SOA's funding from Protocol Proceeds. These costs in excess of amounts reimbursed by SOA are recorded in the statements of financial position and comprehensive net income (loss) as capitalized expenditures and operating expenses. In order to conform to the basis of presentation for the current year, the Company has reclassified the impairment of account receivable expense of $0.7 million and $3.0 million, respectively reported for the three and nine months ended September 30, 2017, within operating expenses, thereby correcting a classification error in the presentation of impairment of account receivable expense previously reported. This adjustment is a reclassification of an expense within total operating expenses and resulted in no change to total operating expenses or to income (loss) from operating activities previously reported by the Company in its statement of comprehensive loss for the three and nine months ended September 30, 2017.

Capital Expenditures

BEL's capital expenditures represent the aggregation of the BEL's 80% share of expenditures and the remaining portion of SOA expenditures funded by BEL, due to SOA's insufficient funding of their share of capital expenditures, which are added to the Carry 1. For the nine months ended September 30, 2018 and 2017, the Company recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
US$000's	2018	2017	2018	2017
BEL's 80% share of capital expenditures	1,648	1,559	4,377	4,698
SOA's 20% share of capital expenditures	412	390	1,094	1,174
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(33)	(17)	(84)	(40)
Value of SOCAR's Compensatory petroleum	(198)	(149)	(572)	(286)
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	181	224	438	848
Total capital expenditures	1,829	1,783	4,815	5,546

Operating costs

BEL's operating costs represent the aggregation of the BEL's 80% share of costs and the remaining portion of SOA's costs funded by BEL, due to SOA's insufficient funding of their share of operating costs, which are added to the Carry 1. For the three and nine months ended September 30, 2018 and 2017, the Company recognized operating costs from BEL's participation in the ERDPSA as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
US$000's	2018	2017	2018	2017
BEL's 80% share of operating costs	5,173	4,372	14,800	13,930
SOA's 20% share of operating costs	1,293	1,093	3,700	3,482
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(126)	(66)	(327)	(160)
Value of SOCAR's Compensatory petroleum	(773)	(596)	(2,216)	(1,144)
BEL's net overfunding of operating costs (SOA's funding deficiency)	394	431	1,157	2,178
Total operating costs	5,567	4,803	15,957	16,108

In relation to Protocol Proceeds, for the nine months ended September 30, 2018, the Company had a receivable balance of $1.0 million (December 31, 2017 - $0.9 million) consisting of uncollected Protocol Proceeds. See *Note 5 – Related Party Accounts Receivable and Payable*.

For the nine months ended September 30, 2018, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $1.6 million (September 30, 2017 - $3.0 million). Per the Protocol, this net overfunding has been added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA carry recovery provisions. At September 30, 2018 the balance of Carry 1 is as follows:

US$000's	
Carry 1 - Opening Amount at January 1, 2018	37,729
SOA's share of capital expenditures funded by BEL	1,094
SOA's share of operating costs funded by BEL	3,700
SOA's share on disposal of property and equipment [2]	(516)
Protocol Proceeds accrued	(3,199)
SOA's share of cost recovery Petroleum production	(4,520)
Carry 1 - Outstanding Amount at September 30, 2018 [1]	34,288

(1) In accordance with the Bahar Joint Operating Agreement, the Carry 1 Ledger is maintained as a separate financing register by BEOC reflecting the funding by BEL and reimbursements made by SOA from their share of cost recovery petroleum.
(2) See *Note 7 – Property and Equipment, Net.*

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in working capital items related to operating activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
US$000's	2018	2017 *Restated **	2018	2017 *Restated **
Trade receivables	(3,248)	769	(320)	(541)
Receivables from related parties	(253)	-	(41)	-
Advances for operating activities	(89)	790	(386)	(269)
Prepaid expenses and deposits	(242)	45	(156)	(18)
Inventories	(226)	(1,226)	(47)	(1,063)
Accounts payable and accrued liabilities	2,187	213	(192)	819
Accounts payable related parties	67	-	264	-
	(1,804)	591	(878)	(1,072)

Changes in working capital items related to investing activities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
US$000's	2018	2017 *Restated **	2018	2017 *Restated **
Accounts payable and accrued liabilities	(981)	(1,005)	(2,296)	(3,289)

* The term *Restated* was added to the 2017 comparative information due to the reclassification of impairment of account receivable expense, previously reported on a separate expense line, into operating expense, both within the same group of expenses. The reclassification was made to conform to the basis of presentation for the current year and resulted in no change to total expenses, income (loss) from operating activities, total comprehensive loss and loss per share reported for the three and nine months ended September 30, 2017. See Protocol on Carry of SOA Certain Costs in *Note 15 – Segment Reporting.*

17. COMMITMENTS AND CONTINGENCIES

The following is a summary of the Company's contractual obligations and commitments as of September 30, 2018:

US$000's	**2018**	**2019**	**Thereafter**
Operating leases (1)	23	23	-
Short term loans – interest (2)	940	-	-
Short term loans – principal (2)	3,025	-	-
Long term loan – interest (3)	-	-	13,113
Long term loan – principal (3)	-	7,500	39,646
Long term loan – restructuring fee (4)	1,414	-	-
	5,402	7,523	52,759

(1) The Company has leased office space for its corporate headquarters in the United States through June 2019.
(2) Represents outstanding principal and accrued interest for short term loans which maturity was extended from July 31, 2018 to December 31, 2018.
(3) Represents long term loan contractual principal payment obligations in 2019 and at maturity date of January 15, 2020 as well as accrued interest also due at maturity. Effective October 31, 2018, under a new amending agreement with the Lender, the maturity of this loan was extended until January 31, 2021. See *Note 20 - Subsequent Events.*
(4) Represents a 3% structuring fee on the Restructured Amount per the 12th Amendment to the Loan Agreement with the Lender to be payable by the Company on or before November 1, 2018. Effective October 31, 2018, under a new amending agreement with the Lender, payment of this restructuring fee was extended until January 31, 2019. See Note 20 - Subsequent Events.

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

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

a) *Credit risk*

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

As at September 30, 2018, the Company's accounts receivable primarily consists of receivables from crude oil and natural gas sales to SOCAR. At September 30, 2018, receivables from crude oil and natural gas sales had an average of 30 days outstanding. All receivable balances are considered by management to be collectable.

Cash and cash equivalents consist of bank deposits held in major United States banks for corporate activities and cash held by BEOC in Azerbaijan for operating activities. Cash held in bank accounts are exposed to the risk of bank failure. That risk is mitigated by keeping accounts in only the largest and most reputable financial institutions for corporate accounts in the United States and for BEOC operating accounts in Azerbaijan. The Company's maximum exposure to credit risk at September 30, 2018 and December 31, 2017 is as follows:

US$000's	September 30, 2018	December 31, 2017
Cash and cash equivalents	206	741
Accounts receivable	9,022	8,702
Accounts receivable related party	959	918
Advances for operating activities	1,216	830
	11,403	11,191

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 and working capital are insufficient for the Company to meet its ongoing obligations as they come due, thereby requiring additional funding to continue providing working capital for the Bahar project and corporate purposes. The timing or likelihood of such funding is uncertain. See also *Note 2 – Basis of Presentation and Going Concern.*

The Company prepares annual and interim period expenditure budgets and forecasts, which are regularly monitored and updated as considered necessary to assess current cash flow needs for the funding of Bahar project and corporate obligations. The Company may raise additional capital through debt and the issuance of shares to meet its funding requirements.
The Company's financial liabilities as at September 30, 2018 and December 31, 2017 arose primarily from corporate obligations and payables incurred by BEOC. Payment terms on accounts payable and accrued liabilities are typically 30 to 60 days from invoice date and generally do not bear interest. The settlement of accounts payable is subject to liquidity and may extend payment terms. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	September 30, 2018				December 31, 2017
US$000's	Within 1 year	Within 1 – 3 years	Over 3 years	Total	Total
Accounts payable and accrued	11,450	-	-	11,450	14,308
Accounts payable related parties [(2)]	2,313	-	-	2,313	2,049
Short term loans – interest [(3)]	940	-	-	940	817
Short term loans - principal [(3)]	3,025	-	-	3,025	3,025
Long term loan – interest [(4)]	-	13,113	-	13,113	12,568
Long term loan – principal [(4)]	-	47,146	-	47,146	47,146
	17,728	60,259	-	77,987	79,913

(1) As at September 30, 2018 and December 31, 2017 the accounts payable and accrued liabilities mainly consist of trade payables from BEOC.

(2) Accounts payable related parties consists of obligations with Vitol's subsidiaries. Amount includes $1.4 million in loan restructuring fees and $0.9 million in technical consulting fees. Effective October 31, 2018, under a new amending agreement with the Lender, payment of the loan restructuring fee was extended until January 31, 2019. See *Note 20 - Subsequent Events.*

(3) Represents outstanding principal and accrued interest for short term loans which maturity was extended from July 31, 2018 to December 31, 2018.

(4) Represents principal and accrued interest estimated through maturity for long term loans maturing January 15, 2020. Effective October 31, 2018, under a new amending agreement with the Lender, the maturity of this loan was extended until January 31, 2021. See Note 20 - 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 the result of changes in foreign currency exchange rates. The Company has minimal exposure to foreign currency fluctuations as a significant portion of the Company's transactions are denominated in the United States dollar and the Company holds almost all of its excess cash in United States dollars. As at September 30, 2018 and December 31, 2017, the Company had no forward exchange contracts in place.

d) Commodity price risk

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

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

As at September 30, 2018 and December 31, 2017, the Company has no outstanding financial instruments, financial derivatives or physical delivery contracts subject to commodity price risk. Purchases and sales of financial assets are recognized on the settlement date, the date on which the Company receives or delivers the asset.

e) Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company's long term loan related party has an interest rate of LIBOR plus 11%. A 1% increase in LIBOR would increase interest expense approximately $1.0 million over the remaining life of the loan.

Fair value of financial instruments

The fair values of financial instruments as at September 30, 2018 and December 31, 2017 are disclosed below by financial instrument category as follows:

		September 30, 2018		December 31, 2017	
US$000's	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets at FVTPL					
Cash and cash equivalents	1	206	206	741	741
Loans and receivables					
Accounts receivable	-	9,022	9,022	8,702	8,702
Accounts receivable related party	-	959	959	918	918
Advances for operating activities	-	1,216	1,216	830	830
Other financial liabilities					
Accts payable and accrued liabilities [(a)]	-	11,183	11,183	13,967	13,967
Accts payable related parties	-	2,313	2,313	2,049	2,049
Short term loans related parties	3	698	698	615	615
Short term loans	3	3,151	3,151	2,779	2,779
Long term loan related party	3	52,631	52,631	46,946	46,946
Liabilities at FVTPL					
Share based bonus	2	267	267	341	341

(a) The accounts payable and accrued liabilities mainly consist of trade payables related to BEOC. Excludes Share-based bonus classified as Liabilities at FVTPL.

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.

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short and long term loans are a reasonable estimate of their fair values due to their short duration. At September 30, 2018 and December 31, 2017, the Company did not have financial instruments measured at fair value on a recurring basis.

19. CAPITAL STRUCTURE AND MANAGEMENT

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

Composition of the Company's capital structure

US$000's	September 30, 2018	December 31, 2017
Working Capital	(3,320)	(5,873)
Long term debt and shareholders' equity	180,991	180,846
Ratios of working capital to long term debt and shareholders' equity	(2%)	(3%)

20. SUBSEQUENT EVENTS

New Amending Agreement with Senior Lender

Effective October 31, 2018, the Company and Vitol Energy (Bermuda) Ltd., executed the thirteenth amending agreement to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, will be converted to the Third Restructured Amount; (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) interest on the Third Restructured Amount remains set at LIBOR plus 11% per annum and, in the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the interest on the outstanding portion of the Third Restructured Amount will be reduced to LIBOR plus 8% per annum; (iv) payment of interest on the Third Restructured Amount is deferred until the maturity date of January 31, 2021; (v) mandatory early repayments were scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to 3.7% of the amount outstanding and 6.7% of the amount outstanding in the event the Third Restructured Amount is reduced to an amount greater than $30 million; and (vi) payment of the 3% restructuring fee due the Lender under the Twelve Amending Agreement is extended from November 1, 2018 to January 31, 2019.