Management's Discussion and Analysis

For the quarter and year ended December 31, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("**MD&A**") for Greenfields Petroleum Corporation ("**Greenfields**" or the "**Corporation**") should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2018 and 2017. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Additional information relating to Greenfields is available on SEDAR at www.sedar.com and on the Corporation's website at www.greenfields-petroleum.com. Unless stated otherwise, all financial measures are expressed in United States dollar and all values presented in thousands of US dollars. This document is dated April 30, 2019.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information regarding Greenfields set forth in this report includes forward looking statements. All statements other than statements of historical facts contained in this MD&A, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect" and similar expressions, as they relate to the Corporation, are intended to identify forward-looking statements.

The Corporation has based these forward-looking statements on certain key expectations and assumptions made by Greenfields, including expectations and assumptions concerning: future events and financial trends that the Corporation believes may affect its financial condition; the Corporation's results of operations, the Corporation's business strategy; the Corporation's financial needs; the Corporation's ability to continue to locate satisfactory properties for participation; the Corporation's ability to obtain debt and equity financing on suitable terms to execute its business strategy; the deferral of debt obligations and the ability to comply with such obligations; the price of oil and natural gas in the future; the marketability of the Corporation's products; the availability and access to drilling and related equipment; the availability of suitable personnel to execute the Corporation's business strategy; the continued demand for oil and natural gas; royalty regimes and exchange rates; and the creditworthiness of industry partners.

Although Greenfields believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Greenfields can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with: the oil and gas industry in general (e.g., operational risks in development, exploration and production, the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks); constraint in the availability of services; commodity price and exchange rate fluctuations; adverse weather or break-up conditions; and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Other sections of this MD&A may include additional factors and risks which could adversely affect our business and financial performance. Additionally, the Corporation operates in a very competitive and rapidly changing environment. New risks and factors emerge from time to time and it is not possible for our management to predict all risks and factors, nor can management assess the impact of all risks and factors on Greenfields' business or the extent to which any risk or factor, or combination of risks or factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The Corporation undertakes no obligation to update publicly or revise any forward-looking statements. Furthermore, the forward-looking statements contained in this report are made as of the date of this report, and the Corporation undertakes no obligation to update publicly or to revise any of the included forward-looking statements unless required by applicable securities laws, whether as a result of new information, future events or otherwise. The forward-looking statements in this report are expressly qualified by this cautionary statement.

Non-IFRS Measures

Within this document, references are made to terms which are not recognized under IFRS. Specifically, "*net realization price*", "*operating cost*" and "*operating netback*" do not have any standardized meaning as prescribed by IFRS and are regarded as non-IFRS measures. These non-IFRS measures may not be comparable to the calculation of similar amounts for other entities and readers are cautioned that use of such measures to compare issuers may not be valid. Non-IFRS measures are used to benchmark operations against prior periods and are widely used by investors, lenders, analysts and other parties. These non-IFRS measures should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. The definition and reconciliation of each non-IFRS measure or additional subtotal is presented herein.

"*Net realization price*", "*operating costs*" and "*operating netbacks*" are common non-IFRS measurements applied in the oil and gas industry and are used by management to assess the financial and operational performance of the Corporation. "*Net realization price*" indicates the selling price of a good less the selling costs. "*Operating cost*" provides an indication of the controllable cash costs incurred per boe during a period. "*Operating netback*" is a measure of oil and gas sales revenue net of royalties, production and marketing & transportation expenses. Management believes that these non-IFRS measures assist management and investors in assessing Greenfields' profitability and operating results on a per unit basis to better analyze performance against prior periods.

The Operating Summary on page 11 includes a reconciliation of "*net realization price*", "*operating cost*" and "*operating netback*" to the most closely related IFRS measure.

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BUSINESS OF THE CORPORATION AND OPERATIONS

The Corporation is an oil and natural gas exploration and development corporation focused on the development and production of proven oil and gas reserves in the Republic of Azerbaijan ("**Azerbaijan**"). The board of directors and management of the Corporation are experienced in financing, developing and operating international oil and gas fields, and possess the requisite technical skills and business acumen to operate in diverse international environments.

The Corporation 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 Corporation of Azerbaijan ("**SOCAR**") and its affiliate SOCAR Oil Affiliate ("**SOA**") in respect of the offshore block known as the Bahar Project (**"Bahar Project"**), which consists of the Contract Rehabilitation Area ("**Contract Rehabilitation Area**", "**CRA**") including the Bahar Gas Field and the Gum Deniz Oil Field and the Exploration Area ("**Exploration Area**").

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

New Amending Agreement with Senior Lender

Effective October 31, 2018, the Corporation and its senior debt lender Vitol Energy (Bermuda) Ltd. ("**Vitol**" or "**Lender**"), executed the thirteenth amending agreement (the "**Thirteenth Amending Agreement**") to the Loan Agreement dated November 25, 2013. Pursuant to the Thirteenth Amending Agreement: (i) the principal amount plus accrued and unpaid interest under the Loan Agreement as at October 31, 2018, in the aggregate of $53.3 million, was converted to principal (the "**Third Restructured Amount**"); (ii) the maturity date of the Loan Agreement was extended from January 15, 2020 to January 31, 2021; (iii) mandatory early repayments were scheduled quarterly, beginning January 1, 2019. In the event the Third Restructured Amount is reduced to an amount less than or equal to $30 million, the quarterly repayments will be equivalent to a 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 Twelfth Amending Agreement was extended from November 1, 2018 to January 31, 2019. Through subsequent agreements with the Lender, payment of the cited restructuring fee as well as the scheduled mandatory early repayments due in January and April 2019 have been deferred to May 31, 2019 (the "**Deferrals**"). See *Subsequent Events*.

Common Shares Consolidation and Changes to the Corporation's Authorized Share Capital

On August 30, 2018, the shareholders of the Corporation authorized the consolidation of the issued and outstanding common shares in the capital of the Corporation 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 (the "**Consolidation**").

On September 27, 2018, the shareholders of the Corporation approved: (i) the implementation of the Consolidation, approved previously at the meeting of shareholders held on August 30, 2018; and (ii) the increase of the Corporation'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.

On September 27, 2018, the Corporation implemented the Consolidation and the 179,807,812 common shares of the Corporation issued and outstanding were reduced to 17,980,781 common shares on a post-Consolidation basis. The outstanding share options were also consolidated and their exercise prices adjusted accordingly. The Consolidation has been reflected in this document 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.

As at December 31, 2018, the authorized share capital of the Corporation 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.

2018 Highlights

- The Corporation's entitlement share of sales volumes (the "**Sales Volumes**") resulted in revenue of $6.8 million in Q4/18 and $31.0 million in 2018. Revenue decreased 2% in relation to Q4/17 while increasing 5% year-over-year.
- Sales Volumes averaged 560 bbl/d for crude oil and 15,868 mcf/d for natural gas or 3,205 boe/d in Q4/18 and 617 bbl/d, 16,689 mcf/d or 3,398 boe/d in 2018. As compared to Q4/17, Sales Volumes increased 2% for crude oil, decreased 2% for natural gas and decreased 1% for boe/d, while year-over-year Sales Volumes decreased 1% for crude oil with no changes for natural gas and boe/d.
- Realized oil price averaged $54.36/bbl for Q4/18 and $63.42/bbl for 2018, a decrease of 3% in comparison to average prices of $56.04/bbl in Q4/17 and an increase of 33% in relation to average prices of $47.81/bbl realized in full year 2017. The price of natural gas has been fixed at $2.69/mcf since April 1, 2017.
- Operating costs were $7.7 million for Q4/18 and $23.4 million for 2018, compared to $4.8 million and $20.9 million, respectively, for the same periods in 2017.
- Capital expenditures were $0.9 million (before write-downs of $1.0 million to operating costs) for Q4/18 and $4.7 million for 2018, compared to expenditures of $1.1 million and $8.4 million, respectively, for the same periods in 2017.
- After interest and depreciation expenses, the Corporation realized a net loss of $5.1 million for Q4/18 and $10.7 million for 2018, which represents a loss per share (basic and diluted) of $0.28 and $0.59 in each respective period. The Corporation also realized a net loss of $2.2 million in Q4/17 and $9.1 million for 2017, with a loss per share (basic and diluted) of $0.12 and $0.54 in each respective period.

Operational Review

- During 2018 BEOC had an excellent safety and environmental record, with zero 'Lost Time Incidents', two minor 'Reportable Incidents' and no spills.
- Gross crude oil production in Q4/18 was 737 bbl/d, increasing 7% from Q3/18, due to successful workovers. In South Gum Deniz Oil Field, workovers are now underway on Platforms 409 and 412 following rig delivery in Q3/18. In this area, BEOC plans to equip six additional wells with electric submersible pumps ("**ESP**") powered by onsite power generation. In the Gum Deniz Oil Field, two successful recompletions were conducted and ten well services were performed for sand cleanouts and artificial lift optimization. Four workovers were underway at the end of the quarter.
- Gross gas production from the Bahar Gas Field in Q4/18 was 21,056 mcf/d, a 4% decrease relative to Q3/18. Gas production in Q4/18 was impacted by the loss of two wells (B-140 & B-205) due to mechanical failures and liquid loading. Workovers to reestablish production for these wells are planned as soon as rigs can be mobilized. The loss of production was partially offset by the end of the fourth quarter 2018 with the successful reactivation of well B-173. For the Bahar Gas Field, BEOC's construction efforts continue to focus on platform refurbishment to enable access for workovers and production operations, as well as infrastructural improvement projects related to the causeway, facilities and pipelines.
- Operating costs were $7.7 million and $23.4 million, respectively, for Q4/18 and full year 2018. In comparison to the same periods in 2017, operating costs increased 60% and 12%, respectively. The increase in operating costs during 2018 relates primarily to the rentals, platform maintenance, electricity and overtime costs incurred in connection with workovers and wells services conducted to mitigate production declines. Operating costs in Q4/18 were impacted by the costs of capital workovers for two Bahar Gas Field wells charged to expense due to collapsed casing. Also, the lower level of capital projects completed during the year resulted in the expensing of operating costs which would otherwise be capitalized. Administrative expenses for Q4/18 and full year 2018 were $0.7 million and $3.6 million, respectively, reflecting a decrease of 15% and increase of 18%, respectively, in comparison to the same periods in 2017. The increases in administrative expenses are due to higher professional and technical fees in connection with ongoing corporate initiatives.
- Capital expenditures were $0.9 million (before write-downs of $1.0 million to operating costs) for Q4/18 and $4.7 million for full year 2018. In comparison to the same periods in 2017, capital expenditures decreased 20% and 32%, respectively. Capital expenditures in fourth quarter were impacted by write-downs involving capital workovers for two Bahar Gas Field wells which costs were charged to expense

due to collapsed casing. In addition, the decrease experienced in 2018 relates primarily to the delay in carrying out workovers and recompletions for the south Gum Deniz Oil Field due to the late delivery of heavier rigs ordered in 2017.

- The Corporation continues to work with SOCAR Drilling Trust ("**SDT**") in connection with partnering opportunities to drill deep gas wells to the NKP reservoir in the Bahar Gas Field, as previously announced on December 4, 2017. The plan to refurbish Platform-196, critical for future development drilling, is ongoing. Final design has been completed and the respective cost estimates are now being prepared. In addition, the Bahar 301 well design and the negotiation of its respective drilling contract remain underway.

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SELECTED FINANCIAL INFORMATION

*Revenues and operating results in the "**Selected Financial Information**" have been adjusted to reflect the Corporation's share of BEL. Upon the closing of the acquisition of the 66.67% interest in BEL not previously owned by the Corporation on August 9, 2016 (the "**Acquisition**"), BEL became a wholly-owned subsidiary of the Corporation, and the Corporation began consolidating 100% of the revenues and operating results from BEL on a going forward basis. For comparative purposes, for periods prior to the Acquisition, revenues, entitlement sales volumes and operating results presented in this MD&A have been adjusted to include the Corporation's 33.33% share of petroleum, natural gas and transportation revenues from BEL, previously included in the "Income or Loss on Investment in Joint Venture" under the equity method of accounting. The combined financial and operating results have been presented only for comparative purposes and do not reflect proper accounting practice under IFRS.*

(US$000's, except as noted)	Years Ended December 31,		
	2018	**2017**	**2016**
Financial			
Revenues			
Crude oil and natural gas [1]	30,962	29,446	21,592
Net income (loss) [2]	(10,655)	(9,068)	99,193
Net income (loss) per share, basic and diluted	($0.59)	($0.54)	$15.15
Operating			
Average Entitlement Sales Volumes [3]			
Crude Oil (bbl/d)	617	626	443
Change compared to same periods in 2017& 2016	*(1%)*	*41%*	
Natural gas (mcf/d)	16,689	16,628	9,833
Change compared to same periods in 2017 & 2016	*nil*	*69%*	
Barrel oil equivalent (boe/d)	3,398	3,379	2,082
Change compared to same periods in 2017 & 2016	*nil*	*62%*	
Entitlement to gross sales volumes [4]	84%	86%	56%
Prices			
Average oil price ($/bbl)	64.56	48.79	38.44
Net realization price ($/bbl)	63.42	47.81	37.52
Change compared to same periods in 2017 & 2016	*33%*	*27%*	
Brent oil price ($/bbl)	71.08	54.12	43.67
Natural gas price ($/mcf) [5]	2.69	3.02	3.96
Net realization price ($/boe) [6]	24.96	23.75	27.28
Operating cost ($/boe) [6]	(18.92)	(16.93)	(21.90)
Operating netback ($/boe) [6]	6.04	6.82	5.38
Capital Items			
Cash and cash equivalents	565	741	1,361
Total Assets	193,471	200,597	199,341
Working capital deficit	(17,796)	(5,873)	(1,444)
Long term debt and shareholders' equity	164,839	180,846	185,103

(1) For comparative purposes, for the 2016 fiscal year, revenues represent the Corporation's 33.33% share of BEL's entitlement production until the Acquisition on August 9, 2016 and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(2) For the 2016 fiscal year, net income includes $113.6 million of one-time net realized gains attributable to the Acquisition and the series of restructuring transactions completed during the year ended December 31, 2016.

(3) Sales Volumes represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. The Corporation's share of entitlement production includes the allocation of SOA's share of cost recovery production as stipulated by the ERDPSA Carry 1 recovery provisions. Compensatory petroleum represents 10% of gross production from the ERDPSA and continues to be delivered to SOCAR, at no charge, until specific cumulative oil and natural gas production milestones are attained. For the 2016 fiscal year, Sales Volumes represent the Corporation's 33.33 share of BEL's entitlement production until the Acquisition on August 9, 2016 and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(4) Represents the percentage of BEL's entitlement production volume relative to gross volumes delivered by the ERDPSA. For the 2016 fiscal year, Sales Volumes represent the Corporation's 33.33 share of BEL's entitlement production until the Acquisition on August 9, 2016 and 100% of BEL's entitlement production for periods subsequent to the Acquisition.

(5) The natural gas price was contractually fixed at $3.96 per mcf through the first quarter 2017 and then renegotiated to $2.69 per mcf effective April 1, 2017.

(6) "Net realization price", "operating cost" and "operating netback" are Non-IFRS measures. For more information, see "*Non-IFRS Measures*" on page 3.

RESULTS OF OPERATIONS

Crude oil and natural gas revenues [1]

	Three Months Ended December 31,		Years Ended December 31,	
(US$000's)	2018	2017	2018	2017
Crude oil	2,855	2,886	14,581	11,147
Natural gas	3,927	4,013	16,381	18,299
Total oil and gas revenues	6,782	6,899	30,962	29,446

[1] Crude oil and natural gas revenues represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. The Corporation's entitlement production includes the allocation of SOA's share of cost recovery petroleum production as stipulated by the ERDPSA Carry 1 recovery provisions.

Crude oil revenues decreased 1% for Q4/2018 and increased 31% for 2018 in relation to the same periods in 2017. Realized oil prices in Q4/18 decreased 4% and increased 33% in 2018 in comparison to the same periods in 2017.

Natural gas revenues decreased 2% and 10% for the Q4/18 and full year 2018, respectively, when compared to natural gas revenues realized for the same periods in 2017. The decreases in Q4/18 and full year 2018 gas revenues are primarily related to the loss in production during the quarter as well as the change in the contractual price of gas from $3.96/mcf to $2.69/mcf effective April 1, 2017.

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 months and years ended December 31, 2018 and 2017, the Corporation recorded revenues for BEL's crude oil and natural gas entitlement production volumes marketed through SOCAR as indicated below:

	Three Months Ended December 31,		Years Ended December 31,	
US$000's	2018	2017	2018	2017
BEL's share of Petroleum entitlement production	5,539	5,519	25,199	23,568
SOA's cost recovery Petroleum production	1,243	1,380	5,763	5,878
BEL's entitlement revenue	6,782	6,899	30,962	29,446

As at December 31, 2018, the Corporation had a balance of $4.6 million in accounts receivables from Petroleum sales to SOCAR. Accounts receivable from crude oil and natural gas sales had an average of 30 days outstanding. All receivable balances are considered by management to be collectable.

Gross production volumes

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Crude Oil and condensate (bbl/d)	737	638	746	738
Change with respect to same period in 2017	*16%*		*1%*	
Natural gas (mcf/d)	21,056	18,965	20,381	19,893
Change with respect to same period in 2017	*11%*		*2%*	
Barrel of oil equivalent (boe/d)	4,247	3,804	4,143	4,053
Change with respect to same period in 2017	*12%*		*2%*	

Average entitlement sales volumes

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Crude Oil and condensate (bbl/d)	560	549	617	626
Change with respect to same period in 2017	*2%*		*(1%)*	
Natural gas (mcf/d)	15,868	16,214	16,689	16,628
Change with respect to same period in 2017	*(2%)*		*nil*	
Barrel of oil equivalent (boe/d)	3,205	3,252	3,398	3,397
Change with respect to same period in 2017	*(1%)*		*nil*	
Total Sales Volumes (boe)	294,849	299,172	1,240,381	1,239,923

Average net realization price for crude oil and natural gas [(1)]

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Average crude oil sales price – $/bbl	55.41	57.11	64.56	48.79
Transportation fees	(0.57)	(0.59)	(0.67)	(0.51)
Marketing fees	(0.48)	(0.48)	(0.47)	(0.47)
Crude oil net realized price	54.36	56.04	63.42	47.81
Natural gas - $/mcf [(2)]	2.69	2.69	2.69	3.02
Net realization price - $/boe [(3)]	23.00	23.06	24.96	23.75

(1) "Net realization price" is a non-IFRS measurement. The net realization price for crude oil is calculated by deducting from the average crude oil sales price, the average costs per barrel for transportation, marketing, port storage, customs, banking fees and certification fees. There are no deductions from the sales price of natural gas.

(2) Effective April 1, 2017, an amendment to the gas sales agreement for the sale of non-associated natural gas produced under ERDPSA (the "**Amended GSA**") reduced the natural gas sales price from $3.96/mcf to $2.69/mcf.

(3) "Net realization price - $/boe" is a non-IFRS measurement which is calculated by dividing Total Crude Oil and Gas Revenues by Total Sales Volumes in boe.

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 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 (the "**Protocol**") in respect of the carry of certain costs 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 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.

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

Capital Expenditures

BEL's capital expenditures represent the aggregation of the BEL's 80% share of expenditures and the remaining portion of SOA expenditures funded by BEL, due to SOA's insufficient funding of their share of capital expenditures, which are added to the Carry 1. For the three months and years ended December 31, 2018 and 2017, the Corporation recognized capital expenditures from BEL's participation in the ERDPSA as follows:

	Three Months Ended December 31,		Years Ended December 31,	
US$000's	2018	2017	2018	2017
BEL's 80% share of capital expenditures [(1)]	(18)	1,195	4,358	7,277
SOA's 20% share of capital expenditures [(1)]	(5)	298	1,090	1,820
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(12)	(16)	(101)	(56)
Value of SOCAR's Compensatory petroleum	(59)	(333)	(626)	(619)
BEL's net overfunding of capital expenditures (SOA's funding deficiency)	(76)	(51)	363	1,145
Total capital expenditures	(94)	1,144	4,721	8,422

(1) BEOC capital expenditures represent the aggregation of BEL's and SOA's share of capital expenditures before factoring Protocol Proceeds.

Capital Expenditures were $0.9 million (before write-downs of $1.0 million to operating costs) for Q4/18 and $4.7 million for full year 2018. BEL's capital expenditures decreased 20% and 44%, respectively, in comparison to the same periods in 2017. Capital expenditures in Q4/18 were impacted by the cost of capital workovers for two Bahar Gas Field wells being charged to expense due to collapsed casing. In addition, the decrease experienced in 2018 relates primarily to the delay in carrying out workovers and recompletions for the south Gum Deniz Oil Field due to the late delivery of heavier rigs ordered in 2017.

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 months and years ended December 31, 2018 and 2017, the Corporation recognized operating costs from BEL's participation in the ERDPSA as follows:

	Three Months Ended December 31,		Years Ended December 31,	
US$000's	2018	2017	2018	2017
BEL's 80% share of operating costs [(1)]	6,908	4,167	21,708	18,097
SOA's 20% share of operating costs [(1)]	1,727	1,042	5,427	4,524
Less: Protocol Proceeds (Effective from April 17, 2017)				
Profit petroleum	(167)	15	(489)	(145)
Value of SOCAR's Compensatory petroleum	(813)	(445)	(3,034)	(1,589)
BEL's net overfunding of operating costs (SOA's funding deficiency)	747	612	1,904	2,790
BEL's net gain on sale of casing [(2)]	-	-	(253)	-
Total operating costs	7,655	4,779	23,359	20,887

(1) BEOC operating costs represent the aggregation of BEL's and SOA's share of operating costs before factoring Protocol Proceeds.
(2) Represents a one-time gain realized by BEL in connection with a sale of casing completed by BEOC in May 2018.

Operating costs were $7.7 million and $23.4 million, respectively, for Q4/18 and full year 2018. In comparison to the same periods in 2017, BEOC's operating costs increased 60% and 12%, respectively, in comparison to the same periods in 2017. The increase in operating costs in 2018 relates primarily to

the rentals, platform maintenance, electricity and overtime costs incurred in connection with workovers and wells services conducted to mitigate production declines. Operating costs in Q4/18 were impacted by the cost of capital workovers for two Bahar Gas Field wells charged to expense due to collapsed casing. Also, the lower level of capital projects completed during the year resulted in the expensing of operating costs which would otherwise be capitalized. Despite the increases in operating costs experienced in 2018, BEOC remains focused on capturing future cost saving opportunities through workforce reductions, training of the internal workforce to perform services previously provided by third party vendors and negotiating lower costs for materials and services.

In relation to Protocol Proceeds, at December 31, 2018, the Corporation had a receivable balance of $0.7 million (December 31, 2017 - $0.9 million) consisting of uncollected Protocol Proceeds.

For the year ended December 31, 2018, BEL's net overfunding of Petroleum Costs due to SOA's cash call funding deficiency was $2.3 million (December 31, 2017 - $3.9 million). Per the Protocol, this net overfunding has been added to the Carry 1, which balance is subject to reimbursement through the allocation of SOA's share of current and future production referred to as cost recovery petroleum under the ERDPSA carry recovery provisions. At December 31, 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	1,090
SOA's share of operating costs funded by BEL	5,427
SOA's share in disposal of property and equipment	(516)
Protocol Proceeds	(4,250)
SOA's share of cost recovery Petroleum production	(5,763)
Carry 1 - Outstanding Amount at December 31, 2018 [(1)]	33,717

(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.

Operating Summary

	Three Months Ended December 31,		**Years Ended December 31,**	
(US$000's)	2018	2017	2018	2017
Crude oil	2,855	2,886	14,581	11,147
Natural gas	3,927	4,013	16,381	18,299
Total oil and gas revenues	6,782	6,899	30,962	29,446
Operating costs [(1)]	(7,680)	(4,803)	(23,466)	(20,994)
Operating netback [(1)]	(898)	2,096	7,496	8,542
Total Sales Volumes (boe)	294,849	299,172	1,240,380	1,239,923
Net realization price - $boe [(1)]	23.00	23.06	24.96	23.75
Operating cost - $/boe [(1)]	(26.05)	(16.05)	(18.92)	(16.93)
Operating netback - $/boe [(1)]	(3.05)	7.01	6.04	6.82

(1) "Net realization price", "operating costs" and "operating netbacks" are common non-IFRS measurements applied in the oil and gas industry and are used by management to assess the financial and operational performance of the Corporation. "Net realization price" indicates the selling price of a good less the selling costs. "Operating cost" provides an indication of the controllable cash costs incurred per boe during a period. "Operating netback" is a measure of oil and gas sales revenue net of royalties, production and marketing & transportation expenses.

Administrative expenses

(US$000's)	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Years Ended December 31, 2018	Years Ended December 31, 2017
Employee wages and benefits	502	427	1,589	1,613
Professional service costs	53	227	1,352	716
Office, travel and other	133	151	734	703
Total cash expenses	688	805	3,675	3,032
Share-based payment expense	(14)	(9)	(69)	61
Total administrative	674	796	3,606	3,093

As compared to same periods in 2017, the increase in administrative expenses during 2018 is primarily due to higher professional and technical fees in connection with corporate initiatives including the Corporation's intention to list at the London Stock Exchange.

Share-based payments

The Share-based payments recorded by the Corporation are associated with share options and share-based cash settled bonuses. Share-based payment expenses for the three months and year ended December 31, 2018 were ($14) and ($69) thousand, respectively (December 31, 2017 – $(9) thousand and $61 thousand, respectively). A detailed discussion of Share-based payments is included in Note 14 to the Corporation's Audited Consolidated Financial Statements for the years ended December 31, 2018 and 2017.

Interest expense

US$000's	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Years Ended December 31, 2018	Years Ended December 31, 2017
Interest expense – long term loan [1]	-	466	-	4,200
Interest expense – long term loan (Restructured Amount) [2]	654	1,194	6,339	1,191
Interest expense – long term loan (Third Restructured Amount) [3]	1,193	-	1,193	-
Interest expense – short term loans [4]	116	201	571	747
	1,963	1,861	8,103	6,138

(1) Represents interest expense related to the long-term loan related party under the August 9, 2016 Ninth Amending Agreement.
(2) Represents interest expense (including the accretion of debt issue costs) related to the long-term loan related party (Restructured Amount) under the October 31, 2017 Twelfth Amending Agreement with Lender.
(3) Effective October 31, 2018, the Corporation and the Lender restructured principal and interest in the amount of $53.3 million (Third Restructured Amount) under the Thirteenth Amending Agreement with maturity of January 31, 2021.
(4) Represents interest expense (including the amortization of deferred loan costs) related to the current short-term loans. In December 2018, the lenders agreed to extend the maturity of these loans from December 31, 2018 to June 30, 2019.

CASH FLOW ANALYSIS

For the three months and year ended December 31, 2018, the Corporation's primary source of funds has come from operations. Cash and cash equivalents were primarily used to fund operating expenses, capital expenditures, administrative and working capital.

EQUITY CAPITAL

On September 27, 2018, the shareholders of the Corporation approved: (i) the implementation of the Consolidation, approved previously at the meeting of shareholders held on August 30, 2018; and (ii) the increase of the Corporation'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 of December 31, 2018, the Corporation had 17,980,781 common shares, 177,000 share options and no preferred shares outstanding.

SUMMARY OF QUARTERLY RESULTS

(US$000's, except as noted)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Revenues								
Crude oil and natural gas	6,782	8,046	9,088	7,046	6,899	6,491	6,818	9,238
Net loss	(5,096)	(2,077)	(891)	(2,591)	(2,188)	(2,383)	(3,129)	(1,368)
Loss per share, basic and diluted	($0.28)	($0.12)	($0.05)	($0.14)	($0.12)	($0.13)	($0.20)	($0.09)
Operating								
Average Entitlement Sales Volumes [(1)]								
Crude Oil (bbl/d)	560	561	751	597	549	573	674	709
Natural gas (mcf/d)	15,868	17,742	18,267	14,855	16,214	15,902	17,120	17,296
Barrel oil equivalent (boe/d)	3,205	3,518	3,796	3,072	3,252	3,223	3,527	3,591
Entitlement to gross sales vols. [(2)]	77%	82%	88%	88%	87%	87%	87%	84%
Prices								
Average oil price ($/bbl)	55.41	70.86	67.61	64.25	57.11	48.46	42.89	48.20
Net realization price ($/bbl)	54,36	69.65	66.44	63.11	56.04	47.47	41.96	47.24
Brent oil price ($/bbl)	68.76	74.61	74.05	66.86	61.40	52.11	49.52	53.59
Natural gas price ($/mcf) [(3)]	2.69	2.69	2.69	2.69	2.69	2.69	2.69	3.96
Net realization price ($/boe) [(4)]	23.00	24.86	26.31	25.48	23.06	21.89	21.24	28.58
Operating cost ($/boe) [(4)]	(26.05)	(17.28)	(14.90)	(18.26)	(16.05)	(16.28)	(15.65)	(19.61)
Operating Netback ($/boe) [(4)]	(3.05)	7.58	11.41	7.22	7.01	5.61	5.59	8.97
Capital Items								
Cash and cash equivalents	565	206	2,131	210	741	1,983	2,173	1,891
Total Assets	193,471	198,603	196,455	199,689	200,597	200,198	201,174	198,781
Working capital [(5)]	(17,796)	(3,320)	(3,175)	(6,666)	(5,873)	(2,697)	(47,136)	(48,189)
Long term debt and shareholders' equity	164,839	180,991	181,121	180,087	180,846	182,773	138,439	138,147

(1) Sales Volumes represent the Corporation's share of entitlement production marketed by SOCAR after in-kind production volumes delivered to SOCAR as compensatory petroleum and the government's share of profit petroleum. The Corporation's share of entitlement production includes the allocation of SOA's share of cost recovery production as stipulated by the ERDPSA Carry 1 recovery provisions. Compensatory petroleum represents 10% of gross production from the ERDPSA and continues to be delivered to SOCAR, at no charge, until specific cumulative oil and natural gas production milestones are attained.

(2) Represents the percentage of BEL's entitlement production relative to gross lifted volumes from ERDPSA.

(3) The natural gas price was contractually fixed at $3.96 per mcf in the first quarter 2017 and then renegotiated to $2.69 per mcf effective April 1, 2017.

(4) "Net realization price, operating cost and operating netback" are Non-IFRS measures. For more information see "*Non-IFRS Measures*" on page 3.

(5) Working capital at March 31, 2017 and June 30, 2017 includes $47 million in loans maturing March 31, 2018, which were classified as short-term loans due to its March 31, 2018 maturity. The loans were subsequently reclassified to long term at September 30, 2017 as the maturity date was extended to January 15, 2020.

RISK FACTORS

The following abbreviated "*Risk Factors*" reflect those risks and uncertainties specific to the Corporation and the Bahar Project.

Rehabilitation, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of a project or the Corporation depends on its ability to find, acquire, license, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to exploit and develop any properties it may have from time to time, but also on its ability to select, acquire and rehabilitate suitable producing properties or prospects. No assurance can be given that the Corporation will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation. It is project specific and at times it is difficult to project the costs of implementing or the success of exploration, rehabilitation or development drilling programs due to the inherent uncertainties of drilling in unknown formations, the uncertainty of the condition of existing well bores, the costs associated with encountering various drilling conditions such as over pressurized geological zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and natural gas exploration or development may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include but are not limited to delays in obtaining governmental approvals or consents, shut ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal oilfield operating conditions cannot be eliminated and can be expected to adversely affect revenue, cash flow and financial condition levels to varying degrees.

Oil and natural gas exploration, development, rehabilitation and production operations are subject to all the risks and hazards typically associated with such operations, including but not limited to hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor is all such risks generally insurable. The Corporation will maintain liability insurance in an amount that it considers consistent with industry practice, however, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development, rehabilitation and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its financial condition.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the development, rehabilitation, production and acquisition of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing or cash generated by operations will be sufficient to meet these additional requirements and there can be no assurance that that debt or equity financing will be available, and, if available, that it will be on terms acceptable to the Corporation. Moreover, these future activities may require the Corporation to alter its capitalization or defer these additional investments until such time as appropriate debt or equity financing will be available. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition and its results of operations.

Additional Financing Requirements and Dilution of Investment

It may take many years and substantial capital expenditures to pursue the exploration and development of the Corporation's existing opportunities, successfully or otherwise. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, rehabilitation and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's future revenues from its potential reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its potential reserves or to maintain its production. If the Corporation's cash flow is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favorable terms.

The availability of equity or debt financing is affected by many factors, including world and regional economic conditions; the state of international relations; the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation; fluctuations in the world and regional price of oil and gas and in interest rates; the outlook for the oil and gas industry in general and in areas in which the Corporation has or intends to have operations; and competition for investment funds among alternative investment projects.

The terms of any such equity financing may be dilutive to holders of common shares. The result of any such debt financing could be to impair the Corporation's ability to obtain additional financing in the future on a timely basis, impairing its ability to take advantage of business opportunities that may arise. In addition, the Corporation has obtained debt financing through various loan agreements in which the Corporation has provided all or substantially all of the Corporation's assets as security (i.e. the Loan Agreement and amendments thereto), and the Corporation's other potential lenders will likely also require such security arrangements. If the Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell some or potentially all of the Corporation's properties.

Potential investors and lenders will be influenced by their evaluations of the Corporation and its projects, including their technical difficulty, and comparison with available alternative investment opportunities. If adequate funds are not available, the Corporation may be required to scale back or reduce its interest in certain projects. If additional financing is raised by the issuance of shares, control of the Corporation may change and existing shareholders may suffer dilution. In addition, the Corporation may make future property or corporate acquisitions or enter into other transactions involving the issuance of securities of the Corporation which may also be dilutive.

Volatility of Oil and Gas Prices and General Economic Conditions

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, which creates market uncertainty and a variety of additional factors beyond the control of the Corporation. For the Corporation, these factors include economic conditions in the United States, Canada and Azerbaijan, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas realized by the Corporation could have an adverse effect on the Corporation's carrying value of any reserves, its ability to service existing loans, revenues, profitability and cash flows from operations.

Volatile oil and natural gas prices make it difficult to estimate the long-term value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, third party financing alternatives available to the Corporation may in part be determined by the Corporation's oil and gas reserves that could form its borrowing base. A sustained material decline in prices from historical levels could reduce the Corporation's borrowing base available under such potential reserve-based borrowings, thereby reducing the credit available to the Corporation under such loans. At present, the Corporation does not have any reserve-based loans in its capital structure.

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

Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market any oil and natural gas it discovers or acquires may depend upon its ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of any reserves it establishes to pipelines and processing facilities and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of any reserves which the Corporation may establish. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in net production revenue of the Corporation causing a reduction in its oil and gas acquisition, development, rehabilitation and exploration activities.

Project Risks

The Corporation will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel services;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- failure of aging infrastructure from former operations;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labor;
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies; and
- industry partner conflicts of interest.

As a result of the foregoing factors, the Corporation may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Risk of Foreign Operations

The Corporation's investment in oil and natural gas properties is located in Azerbaijan. As such, the Corporation is subject to political, economic, and other uncertainties, including, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, exchange controls and royalty and tax increases, oil export or pipeline restrictions, restrictions on the use of expatriates and other risks arising out of foreign governmental sovereignty over areas in which the Corporation's operations are conducted, as well as the risks of loss due to civil strife, acts of war, acts of terrorism, guerrilla activities and insurrections. In the event of a dispute arising in connection with the Corporation's operations outside of the United States, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign

persons to the jurisdictions of the courts of the United States or enforcing judgments from the United States in other jurisdictions. The Corporation may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Corporation's exploration, development and production activities outside of the United States could be substantially impacted by factors beyond the Corporation's control, any of which could have a material impact on the Corporation.

The Corporation's operations may be adversely affected by changes in governmental policies and legislation or social instability and other factors which are not within control of the Corporation including, among other things, a change in crude oil or natural gas pricing policy, the actions of national labor unions, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, changes in taxation policies, economic sanctions and the imposition of specific drilling obligations and the development and abandonment of oil or natural gas fields.

Certain operations and expenditures of the Corporation are required to be paid in foreign currencies. As a result, the Corporation is exposed to fluctuations in foreign currency exchange rates. A material increase or decrease in the value of any such foreign currency could result in a material adverse effect on the Corporation's cash flow and revenues. Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Azerbaijan to foreign entities. However, there can be no assurance that restrictions on repatriation of capital or distributions of earnings from Azerbaijan will not be imposed in the future.

Availability of and Access to Drilling and Related Equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling, recompletion and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration, rehabilitation and development activities and affect the Corporation's results of operations. If the demand for, and wage rates of, qualified rig crews and other personnel rise, then the oil and gas industry and the Corporation may experience shortages of qualified personnel to operate drilling rigs and to conduct other work. This may delay the Corporation's exploration, rehabilitation, development and production operations and may adversely affect the Corporation and its results of operations.

Reliance on Industry Partners

The Corporation relies on SOA, a 20 percent Contractor Party to the ERDPSA. The Corporation relies on this partner with respect to the evaluation, acquisition, development funding and timing of activities, as well as future production from the ERDPSA, and a failure or inability to perform by such partner could materially affect the prospects of the Corporation. The failure of SOA to contribute their share of funding in the time required by the Bahar Project may materially impact the Corporation's and BEOC's ability to fully execute the Bahar Project development plan.

Reliance on Key Personnel

The Corporation's success will depend in large measure on certain key personnel, including officers, consultants and employees. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have key person insurance in effect for management of the Corporation. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Availability of Services

The availability of the services necessary to drill, complete and produce the types of wells and waterfloods that form a substantial portion of the Corporation's planned exploration and development activities remains constrained due to increased demand and competition for such services. Such constraint may increase the costs of such services or result in the delay of planned exploration and development activities.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Costs of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation does. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition and results of operations could be materially adversely affected. If the Corporation is unable to utilize the most advanced commercially available technology, the Corporation's business, financial condition and results of operations could be materially adversely affected.

Conflicts of Interest

Certain directors and officers of the Corporation are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures as established by the Board and in accordance with applicable corporate laws.

Share Price Volatility

The market price of the common shares could be subject to wide fluctuations in response to the Corporation's results of operations, changes in earnings estimates by analysts, changing conditions in the oil and gas industry, or changes in general market, economic or political conditions.

Regulatory Regime

The operations of the Corporation require permits, licenses, approvals and authorizations from various governmental and non-governmental authorities. Such permits, licenses, approvals and authorizations are subject to the discretion of the applicable governmental and non-governmental authorities. The Corporation must comply with existing standards, laws and regulations, as applicable, that may entail greater or lesser costs and delays, depending on the nature of the activity to be permitted and the permitting authority. There can be no assurance that the Corporation will be able to obtain all necessary permits, licenses, approvals or authorizations. Failure to obtain such licenses, permits, approvals or authorizations may have a material adverse effect on the Corporation's business, prospects, financial condition or results of operations. The Corporation's intended activities will be dependent on such permits, licenses, approvals and authorizations which, if obtained, could subsequently be withdrawn or made subject to limitations. There can be no guarantee as to the terms of any such permits, licenses, approvals and authorizations that future permits, licenses, approvals and authorizations will be renewed or, if so, on what terms when they come up for renewal. Properties in the jurisdiction in which the Corporation currently carries on business are subject to licence requirements, which generally include, inter alia, certain financial commitments which, if not fulfilled, could result in the suspension or ultimate forfeiture of the relevant licenses. Government action, which could include non-renewal of licenses, may result in any income receivable by the Corporation or licenses held by the Corporation being adversely affected. In particular, changes in the application or interpretation of laws and/or taxation provisions in the regions in which it carries on business could adversely affect the value of the Corporation's interests.

The Corporation bears the risk that a change of government could occur and a new government may void the contracts, laws and regulations that the Corporation is relying upon for the exploration, rehabilitation, development and production of oil and natural gas and operations relating thereto. Regulations with respect to exploration and production operations may be revised at any time. There can be no assurance that any such regulatory enactments will not have a materially adverse effect on the operations or the revenues generated in Azerbaijan.

Legal Risks

Laws relating to corporate law, tax law, customs law and currency and banking legislation are subject to modifications or revision by Azerbaijan. Noncompliance may have consequences which are out of proportion to the severity of the noncompliance. Contracts may be susceptible to conflicting interpretations, revision or cancellation and legal redress may be uncertain, delayed or unavailable. It is possible that Azerbaijan may make changes to laws, decrees, rules or regulations which may restrict the rights or benefits accruing to the Corporation or which may increase its financial obligations.

Regional Risk

Azerbaijan is located in a region that has, at times, been politically unstable. Regional wars or other forms of instability in the region that may or may not directly involve Azerbaijan could have an adverse impact on Azerbaijan's ability to engage in international trade or the exploration, rehabilitation, development and production of oil and gas assets in Azerbaijan by the Corporation.

Corporate Tax Regime

Development of reserves and rates of return are susceptible to changes in national fiscal policy. Azerbaijan, in which the Corporation's principal assets are located, is a developing democracy, and so may be more likely to implement changes in fiscal policy which are detrimental to the interests of oil and gas companies operating there. In addition, any changes to taxation laws in Azerbaijan, the United States, the Cayman Islands or Canada may have a material adverse effect on the Corporation's business, prospects, financial condition or results of operations.

Tax regimes in the jurisdictions in which the Corporation operates can be subject to differing interpretations and are often subject to legislative change and changes in administrative interpretation in those jurisdictions. The interpretation by the Corporation's relevant subsidiaries of relevant tax law as applied to their transactions and activities (including farm ins and farm outs) may not coincide with that of the relevant tax authorities. As a result, transactions may be challenged by tax authorities and any profits of the Corporation's subsidiaries from activities in those jurisdictions may be assessed to additional tax or additional transactional taxes (e.g. stamp duty or value-added tax), which, in each case, could result in significant additional taxes, penalties and interest, any of which could have a material adverse impact on the Corporation's business, prospects, financial condition or results of operations.

Banking Risk

The Corporation and its subsidiaries hold bank accounts in Azerbaijani banks, and thus, access to capital resources can be affected by the performance of these banks and their ability to continue as a going concern. Commercial banks (including "money centre" regional and community banks), savings and loan associations and holding companies of the foregoing are especially subject to adverse effects of volatile interest rates, concentrations of loans in particular industries (such as real estate or energy) and significant competition. The profitability of these businesses is to a significant degree dependent upon the availability and cost of capital funds. Economic conditions in, for example, the real estate market, may have a particularly strong effect on certain banks and savings associations. Commercial banks and savings associations are subject to extensive government regulation, however, such extensive regulation cannot fully ensure the solvency or profitability of companies in this industry, and there is no assurance against losses to accounts held by such companies. To the extent that the Corporation's or any of its subsidiaries cash is held by, or invested by, regional Azerbaijani banks, access to such cash (or the performance of such investments) could be disproportionately affected by factors particular to that state or region. These may include economic or policy changes, erosion of the tax base, and state legislative changes (especially those regarding budgeting and taxes) and other matters that affect local economies.

Conflicting Interests with Partners

Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have objectives and interests that may not coincide with the Corporation's interests and may conflict with the Corporation's interests. Unless the parties are able to resolve these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated, which would likely have a material adverse effect on the Corporation's financial condition and results of operations.

In certain circumstances, the consent of joint venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from the Corporation's, even if they generally share the Corporation's objectives. Demands by or expectations of governments, joint venturers, customers, and others may affect the Corporation's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect the Corporation's participation in such projects or its ability to obtain or maintain necessary licenses and other approvals. If that were to occur, it would likely have an adverse effect on the Corporation's financial condition and results of operations.

Expiration of Contract Terms

The Corporation's property interests are generally expected to be held indirectly in the form of PSAs. If the Corporation or the holder of the interests in the PSA fails to meet the specific requirement(s) of a PSA, the interest or any part thereof may terminate or expire. There can be no assurance that any of the obligations required to maintaining each interest in a PSA will be met. The termination or expiration of the Corporation's particular interest in a PSA, including the ERDPSA, will likely have a material adverse effect on the Corporation's financial condition and results of operations.

Environmental Risks and Regulations

All phases of the oil and gas industry present environmental risks and are subject to environmental regulation pursuant to a variety of international conventions and local laws and regulations. Such legislation provides for, among other things, restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites to be operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of fines and penalties any of which may materially adversely affect the Corporation's financial condition and results of operations.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. No assurance can be given that environmental legislation will not result in a curtailment of production or a material increase in the costs of exploration, development or production activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Insurance

The Corporation's involvement in the exploration for and development of oil and gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. The insurance the Corporation maintains may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations and prospects.

Delays in Business Operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Corporation, payments to the Corporation may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connections of wells to a gathering system, adjustment for prior periods, or recovery of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the Corporation in a given period and expose the Corporation to additional third party credit risks.

Third Party Credit Risk

The Corporation may be exposed to third party credit risk through its contractual arrangements with joint venture partners, purchasers of petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners of the Corporation may impact their capacity and willingness to participate in ongoing

capital programs, potentially delaying the programs and the results of such programs until the Corporation finds a suitable alternative partner.

Governmental Regulation

The petroleum industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for natural gas and oil, increase costs and may have a material adverse impact on the Corporation. Export sales are subject to the authorization of provincial and federal government agencies and the corresponding governmental policies of foreign countries. Development of reserves and rates of return are also susceptible to changes in governmental fiscal policy. Generally, government and other regulatory licenses and permits are required to conduct exploration, rehabilitation, development and production activities. The issuance of such licenses and permits is subject to the discretion of the applicable governments or governmental agencies and offices, and there can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out its exploration, rehabilitation, development and production activities at its properties. The Corporation must comply with known standards, existing laws and regulations. New laws and regulations, amendments to existing laws and regulations or more stringent enforcement of existing laws and regulations could have a material adverse impact on the Corporation and its results of operations, financial condition and prospects.

Development of the Corporation’s properties requires the approval by applicable regulatory authorities of the plans of the Corporation with respect to the drilling and development of such properties. A failure to obtain such approval on a timely basis or the imposition of material conditions by such authority in connection with the approval may materially affect the prospects of the Corporation.

Labor

The Corporation may be dependent on local labor to carry out site work relating to its international operations. The Corporation may directly employ local workers and may be subject to local labor laws. There can be no assurance that labor related disputes, developments or actions, including strikes, may not occur in the future. Such occurrences may have a material adverse impact on the business, operations, prospects and financial condition of the Corporation.

Market Conditions

As a result of the weakened global economic situation and the recent volatility in oil, natural gas and other commodity prices, the Corporation may face reduced cash flow and restricted access to capital until these conditions stabilize. A prolonged period of adverse market conditions may affect the Corporation’s financial results and impede the Corporation’s ability to finance planned capital expenditures. In addition, a prolonged period of adverse market conditions may impede the Corporation’s ability to refinance its credit facilities or arrange alternative financing for operations, capital expenditures and future acquisition opportunities. In each case, the Corporation’s ability to maintain and grow its reserves and fully exploit its properties for the benefit of the shareholders could be adversely affected. As well, given the recent volatility in commodity prices in global markets, the trading prices of common shares in the future may be subject to considerable volatility. Future trading prices of the Corporation’s common shares may be significantly below current levels.

Operating Cash Flow

The Corporation continues to fund SOA’s funding deficiencies of ERDPSA expenditures which materially burdens the working capital of the Corporation and limits the availability of operating cash flow for debt servicing. The senior lenders also continue work with the Corporation through the deferral of interest and principal payments until operating cash flows can provide adequate debt service coverage. The Corporation’s failure to achieve profitability and positive cash flows from the Bahar Project could have a material adverse effect on the Corporation’s business, financial condition, operating results, ability to access additional equity, seek or maintain third-party financing.

Climate Change

Azerbaijan is signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called “greenhouse gases”. Azerbaijan is also a signatory to the Paris Agreement. The Corporation’s proposed exploration activities will emit greenhouse gases and require the Corporation to comply with greenhouse gas emissions legislation and policy. The direct or indirect costs of these regulations may have a material adverse effect on the Corporation’s business, prospects, financial condition or results of operations. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord, the Paris Agreement or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation’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 Corporation’s reputation. However, the Corporation’s current cash balance and working capital are insufficient for the Corporation 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.

The Corporation 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 Corporation may raise additional capital through debt and the issuance of shares to meet its funding requirements. The Corporation’s ability to continue as a going concern depends on the Corporation being successful in raising additional capital through debt financing or issuance of equity on favorable terms.

Capital Structure

	Years Ended	
(US$000’s)	**December 31, 2018**	**December 31, 2017**
Working capital deficit [(1)]	(17,796)	(5,873)
Long term debt and shareholders’ equity	164,839	180,846
Ratios of working capital deficit to long term debt and shareholders’ equity	(11%)	(3%)

(1) Working capital, as presented here, is current assets net of current liabilities.

The Corporation will continue pursuing various financing options, including additional issuances of debt and equity securities, for its current corporate obligations and its contractual commitments under the ERDPSA.

Off-balance sheet arrangements

The Corporation does not have any special purpose entities, nor is it party to any transactions or arrangements that would be excluded from the Corporation’s Consolidated Statements of Financial Position for the year ended December 31, 2018.

Related party transactions

A detailed discussion of related party transactions is included in Notes 6, 10 and 11 to the Corporation’s Consolidated Financial Statements for the year ended December 31, 2018.

Contractual commitments and contingencies

The following is a summary of the Corporation's contractual obligations and commitments as of December 31, 2018:

US$000's	**2019**	**2020**	**Thereafter**
Operating leases (1)	24	-	-
Short term loans – interest (2)	1,175	-	-
Short term loans – principal (2)	3,025	-	-
Long term loans – interest (3)	-	-	11,461
Long term loans – principal (3)	12,908	9,781	30,595
Long term loans – restructuring fee (4)	1,414	-	-
Total Contractual Commitments	18,546	9,781	42,056

(1) The Corporation 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 December 31, 2018 to June 30, 2019.
(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.
(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 Corporation on or before November 1, 2018. Effective October 31, 2018, under a new amending agreement with the Lender, payment of this fee was extended until January 31, 2019. Through subsequent agreements with the Lender, payment of this fee along with quarterly repayments due have been deferred to May 31, 2019. See *Subsequent Events*.

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

Financial instruments

A summary of the Corporation's financial instruments is included in Note 21 to the Corporation's Consolidated Financial Statements for the year ended December 31, 2018.

SUBSEQUENT EVENTS

Extension of Debt Payment

The Corporation executed payment deferral letters with Vitol to defer payments, in the aggregate of $8.3 million, until May 31, 2019. The Corporation anticipates the Deferrals will give the Corporation sufficient time to comply with its obligations under the thirteenth amending agreement to the loan agreement between the Corporation and Vitol.

Voluntary Options Surrender

On January 29, 2019, the Corporation entered into option surrender agreements with certain existing option holders of the Corporation to voluntarily surrender for cancellation an aggregate of 11,500 stock options (post-Consolidation) issued pursuant to the Corporation's Stock Option Plan. The surrender of stock options was effective immediately and completed for nil consideration.

Appointment of COO

Mr. Norman Benson, who served as Senior Vice President and Chief Operating Officer of Greenfields and President of BEOC, will step down from those positions effective May 1, 2019. Mr. Benson has been very instrumental in directing the production activities of the Company for over the past six years. The Corporation will appoint Mr. John Harkins to replace Mr. Benson as COO of Greenfields and President of BEOC, in addition to his current roles as President and Chief Executive Officer of Greenfields.

ABBREVIATIONS

Abbreviation	Description
bbl	Barrels
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 mcf of natural gas
bbl/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
km	kilometer
psi	pounds per square inch