



Consolidated Financial Statements

For the years ended December 31, 2020 and 2019



Independent auditor's report

To the Shareholders of Condor Petroleum Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Condor Petroleum Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

The impact of natural gas reserves on property, plant and equipment (PP&E) for the Poyraz Ridge and Destan (Turkey) cash generating unit (CGU)

Refer to note 2 – Basis of presentation, note 3 – Significant accounting policies, note 7 – Property, plant and equipment and note 19 – Segmented information to the consolidated financial statements.

The Company has \$3.8 million of PP&E in the Turkey CGU as at December 31, 2020. Depletion, depreciation and impairment expense for the Turkey CGU was \$7.7 million for the year then ended. PP&E is depleted using the unit-of-production basis over the proved plus probable reserves and a revision in the productive capacity of the assets may result in increased depletion and a reduced net book value of assets.

The recoverability of the assets is assessed at the CGU level. PP&E, including oil and gas properties and other equipment, is reviewed at each reporting date to determine whether there is any indication of impairment. If any indication of impairment exists, an estimate of the asset's or CGU's recoverable amount is calculated. The recoverable amount is determined based on fair value less costs of disposal. The Company's natural gas reserves are evaluated by independent qualified reserves evaluators (management's experts).

As an indicator of impairment was noted, the Company tested the PP&E in Turkey for

Our approach to addressing the matter included the following procedures, among others:

- The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved and probable natural gas reserves used to determine depletion, depreciation and impairment expense and the recoverable amount of PP&E in the Turkey CGU. As a basis for using this work, management's experts' competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the assumptions, methods and findings.
- Tested how management determined the recoverable amount of the Turkey CGU and depletion, depreciation and impairment expense, which included the following:
 - Evaluated the appropriateness of the methods and model used by management in making these estimates.
 - Tested the data used in determining these estimates.
 - Evaluated the reasonableness of significant assumptions used in developing the underlying estimates:
 - o Future operating and capital costs and production profiles by considering the past performance of the Turkey CGU, and whether these assumptions were



Key audit matter	How our audit addressed the key audit matter
<p>impairment as at December 31, 2020 and determined that the carrying amount of the Turkey CGU exceeded its recoverable amount of \$1.6 million, resulting in an impairment expense of \$5.9 million included in depletion, depreciation and impairment expense.</p> <p>Significant assumptions developed by management and used to determine the recoverable amount of the Turkey CGU include volumes of recoverable reserves, forward natural gas and condensate prices, future operating and capital costs, production profiles and discount rate.</p> <p>We determined that this is a key audit matter due to (i) the significant judgment made by management, including the use of management's experts, when developing the expected future cash flows to determine the recoverable amount and the proved and probable natural gas reserves; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions; and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.</p>	<p>consistent with evidence obtained in other areas of the audit.</p> <ul style="list-style-type: none"> o Forward natural gas and condensate prices by comparing forecasts with other independent sources. o The discount rate, through the assistance of professionals with specialized skill and knowledge in the field of valuation. <ul style="list-style-type: none"> • Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the impairment assessment of PP&E for the Turkey CGU.
<p>Netherlands uncertain tax treatment</p> <p><i>Refer to note 3 – Significant accounting policies and note 15 – Income taxes to the consolidated financial statements</i></p> <p>Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.</p> <p>The Dutch Tax Authority (DTA) has issued notices of assessment to New Horizon Energy</p>	<p>Our approach to addressing the matter involved the following procedures, among others:</p> <ul style="list-style-type: none"> • Evaluated the results of the income tax audit and correspondence with the DTA. • Evaluated the reasonableness of management's assessment of whether it is probable that the DTA will accept the uncertain tax treatment without incurring any taxes payable. • Evaluated the sufficiency of the disclosures in the consolidated financial statements.



Key audit matter

How our audit addressed the key audit matter

Netherlands B.V., a wholly owned Company subsidiary based in the Netherlands (New Horizon) amounting to 8.4 million Euros (equivalent to \$13.1 million using December 31, 2020 exchange rate) related to taxation years 2013-2016, including accrued interest. New Horizon has filed an objection and the matter is under further review by the DTA. The assessments seek to disallow interest expense deductions related to inter-company loans New Horizon received from the Company and the majority of which were onward loaned to the Company's subsidiary in Kazakhstan on a back-to-back basis to fund exploration and development activities in Kazakhstan. The Company expects to resolve these matters with the DTA without incurring any taxes payable.

Assessing whether it is probable that the DTA will accept an uncertain tax treatment and the estimate of the provision, requires significant management judgment related to the interpretation and application of complex tax laws and regulations.

We considered this a key audit matter due to the magnitude of the uncertain tax treatment, audit effort involved in applying audit procedures to assess the uncertain tax treatment and judgment by management in determining whether a provision for uncertain tax treatment is required.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditor's report is Courtney Kolla.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 17, 2021

Condor Petroleum Inc.

Consolidated Statements of Financial Position
Stated in thousands of Canadian dollars

As at		December 31, 2020	December 31, 2019
	Note		
Assets			
Cash and cash equivalents	5	12,307	2,935
Trade and other receivables		278	334
Other current assets	6	1,003	4,830
		13,588	8,099
Assets held for sale	4	-	18,743
Total current assets		13,588	26,842
Exploration and evaluation assets	19	252	-
Property, plant and equipment	7	4,626	15,033
Other long term assets	8	3,037	3,610
Total assets		21,503	45,485
Liabilities			
Accounts payable and accrued liabilities		1,657	4,714
Lease liabilities		13	47
Current portion of long term borrowings		-	6,846
Current portion of provisions	9	306	345
Deferred revenue		-	119
Deposit for assets held for sale	4	-	5,124
		1,976	17,195
Liabilities held for sale	4	-	3,140
Total current liabilities		1,976	20,335
Provisions	9	2,421	2,397
Total liabilities		4,397	22,732
Equity			
Share capital	10	271,931	271,931
Contributed surplus		22,059	21,849
Translation reserve		(83,273)	(79,467)
Deficit		(193,611)	(191,560)
Total equity		17,106	22,753
Total liabilities and equity		21,503	45,485

Commitments and contingent liabilities (Note 16).

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

Condor Petroleum Inc.

Consolidated Statements of Comprehensive Income (Loss)

Stated in thousands of Canadian dollars

(except for per share amounts)

For the year ended December 31		2020	2019
	Note		
Revenue			
Natural gas and condensate sales	19	2,780	5,169
Royalties		(351)	(647)
Total revenue		2,429	4,522
Expenses			
Production costs		1,207	1,225
Transportation and selling		543	445
General and administrative		7,075	7,054
Depletion, depreciation and impairment	7	7,834	6,810
Stock based compensation	12	210	211
Total expenses		(16,869)	(15,745)
Finance income	14	243	379
Finance expense	14	(562)	(2,434)
Foreign exchange loss	17	(177)	(592)
Net loss from continuing operations		(14,936)	(13,870)
Net income from discontinued operations	4, 20	12,885	3,770
Net loss		(2,051)	(10,100)
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation adjustment		(3,806)	(2,244)
Comprehensive loss		(5,857)	(12,344)
Income (loss) per share			
Basic and diluted net loss from continuing operations		(0.34)	(0.31)
Basic net income from discontinued operations		0.29	0.08
Basic and diluted net loss		(0.05)	(0.23)

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

Condor Petroleum Inc.

Consolidated Statements of Cash Flows

Stated in thousands of Canadian dollars

For the year ended December 31		2020	2019
	Note		
Operating activities:			
Net loss from continuing operations		(14,936)	(13,870)
Items not affecting cash:			
Depletion, depreciation and impairment	7	7,834	6,810
Stock based compensation		210	211
Finance income		(176)	(313)
Finance expenses		489	2,277
Unrealized foreign exchange loss		541	462
Loss on disposal of property, plant & equipment		32	56
Cash used in operating activities before changes in non-cash working capital		(6,006)	(4,367)
Changes in non-cash working capital		(660)	797
Cash used in continuing operations		(6,666)	(3,570)
Cash from discontinued operations	4	271	5,663
Cash from (used in) operating activities		(6,395)	2,093
Investing activities:			
Exploration and evaluation expenditures		(289)	-
Property, plant and equipment expenditures	7	(188)	(152)
Proceeds from property, plant and equipment sales		236	320
Changes in non-cash working capital		221	(37)
Cash from (used in) continuing investing activities		(20)	131
Cash from discontinued investing activities	4	23,287	2,914
Cash from investing activities		23,267	3,045
Financing activities			
Repayment of borrowings	18	(6,966)	(2,637)
Interest paid on borrowings	18	(64)	(1,212)
Lease payments		(49)	(113)
Cash used in continuing financing activities		(7,079)	(3,962)
Change in cash		9,793	1,176
Effect of foreign exchange on cash		(421)	69
Cash and cash equivalents, beginning	5	2,935	1,690
Cash and cash equivalents, ending	5	12,307	2,935

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

Condor Petroleum Inc.

Consolidated Statements of Changes in Equity

Stated in thousands of Canadian dollars

(except for number of common shares)

	Number of common shares	Share capital	Contributed surplus	Translation reserve	Deficit	Total equity
As at December 31, 2018	44,165,100	271,931	21,638	(77,223)	(181,460)	34,886
Stock based compensation expense	-	-	211	-	-	211
Foreign currency translation adjustment	-	-	-	(2,244)	-	(2,244)
Net loss	-	-	-	-	(10,100)	(10,100)
As at December 31, 2019	44,165,100	271,931	21,849	(79,467)	(191,560)	22,753
Stock based compensation expense	-	-	210	-	-	210
Foreign currency translation adjustment	-	-	-	(3,806)	-	(3,806)
Net loss	-	-	-	-	(2,051)	(2,051)
As at December 31, 2020	44,165,100	271,931	22,059	(83,273)	(193,611)	17,106

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

1. Corporate information:

Reporting entity:

Condor Petroleum Inc. ("Condor" or the "Company") is a publicly traded company, listed on the Toronto Stock Exchange ("TSX") under the symbol "CPI", with activities in the Republic of Turkey ("Turkey") and the Republic of Kazakhstan ("Kazakhstan"). The address of the Company's registered office is 2400, 144 – 4th Ave SW, Calgary, Alberta, Canada, T2P 3N4.

The consolidated financial statements ("financial statements") of the Company as at and for the years ended December 31, 2020 and 2019 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on March 17, 2021 by the Board of Directors.

Nature of operations:

The Company has a 100% interest in and operates the Poyraz Ridge and Destan operating licenses and gas fields in Turkey. The Poyraz Ridge and Destan operating licenses are both valid until June 2023 and may be extended upon approval by the competent authority in Turkey until 2035.

The Company has a 100% interest in the Zharkamys West 1 exploration contract ("Zharkamys") in Kazakhstan following its reinstatement by the Government of Kazakhstan in February 2020 for an additional 630 days until November 18, 2021.

2. Basis of presentation:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements are reported in Canadian dollars ("CAD") which is the functional currency of the Company. The Company's subsidiary in Kazakhstan has a Kazakhstan Tenge ("KZT") functional currency. One of the Company's subsidiaries in the Netherlands, which has a branch in Turkey ("Turkey Branch"), has a Turkish Lira ("TRY") functional currency.

Significant accounting estimates and judgments

The timely preparation of financial statements requires management to make use of judgments, estimates and assumptions when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ from those estimates as future confirming events occur. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") outbreak to be a pandemic. For the year ended December 31, 2020, COVID-19 had an impact on the global economy, including the oil and gas industry. The Company has taken into account the impacts of COVID-19 and the unique circumstances it has created in making estimates, assumptions and judgements in the preparation of the consolidated financial statements.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include:

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

i. Reserve estimates

Amounts recorded for depletion and depreciation and assessing the valuation of property, plant and equipment for impairment are based on estimates of natural gas and condensate reserves. By their nature, the estimates of reserves, including future sales prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. A downward revision in the reserve estimates or an upward revision to future capital costs would affect the depletion expense and could result in an asset impairment, which would reduce future earnings and the associated net book value of assets. Accordingly, the impact on the consolidated financial statements of future periods could be material. The Company's gas and condensate reserves are evaluated by an independent qualified reserves evaluator.

ii. Impairment

Estimates include volumes of recoverable reserves, forward natural gas and condensate prices, future operating and capital costs, production profiles, discount rates, and consequently fair values of properties. A downward revision in the reserve estimates or an upward revision to future capital costs could result in an asset impairment which would reduce future earnings and the associated net book value of assets. The allocation of assets into cash generating units ("CGU") requires significant judgment and interpretation. Factors considered include the integration between assets, shared infrastructure, the existence of common sales points, geography, geologic structure, and the manner in which management monitors and makes decisions about its operations. The recoverability of the assets is assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment expense and reversals.

iii. Depletion

Estimates include the amount of reserve volumes and future development capital. Depletion is charged on a unit-of-production basis over the proved plus probable reserves and a revision in the productive capacity of the assets may result in increased depletion and a reduced net book value of assets.

iv. Decommissioning obligations

Amounts recorded for decommissioning obligations and the related accretion expense require the use of estimates with respect to the amount and timing of asset retirements, site remediation, discount rates, inflation rates and related cash flows (Note 9). Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow. As a result of the long-term nature of the Company's operations, these estimates may change over time which may result in a change in the decommissioning provision and corresponding asset value, and impact future earnings as a result of changes in accretion and depletion expense.

v. Stock based compensation

Compensation costs related to the Company's stock option plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes option pricing model, which is based on significant assumptions such as share price volatility, risk free rates, forfeiture rates and the expected life of granted stock options (Note 12).

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

vi. Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings (Note 15). Changes in the estimate of future taxable income and the recovery of deductible temporary differences may result in the recognition of a deferred tax asset on the statement of financial position and an increase in earnings at the time when the tax recovery is recorded.

vii. Other long term assets

Other long term assets are subject to estimates regarding the timing and amounts of future receipts and payments, discount rates and related cash flows (Notes 8). A change in the timing of cash flows or discount rates may impact earnings (loss) as a result of changes in finance income and expense.

Other long term assets include refundable value added tax ("VAT") receivables and restricted bank deposits for mandatory decommissioning obligation funding related to Condor's activities in Kazakhstan and Turkey and for the Poyraz Ridge pipeline surface access expropriation in Turkey. The VAT receivables are available for offset against VAT collected on future domestic sales and available for refund related to future export sales and are discounted from the expected date of receipt using a discount rate which approximates the market rate of interest. The bank deposits are invested in special interest bearing accounts and the funds are available at the Company's discretion for decommissioning obligations.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements by the Company and its subsidiaries.

*Basis of consolidation**i. Subsidiaries*

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As at December 31, 2020 the Company has the following significant and wholly owned subsidiaries:

- Falcon Oil & Gas Ltd. LLP (Kazakhstan)
- Marsa Turkey B.V. (Netherlands and Turkey)

ii. Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation and transactions

For the Company's foreign operations, assets and liabilities are translated to Canadian dollars from their functional currency using period end exchange rates, revenues and expenses are translated using average exchange rates during the period. Foreign currency translation adjustments are recognized in the translation reserve.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in the translation reserve.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into the functional currency at period end exchange rates with resulting exchange gains and losses included in profit or loss for the period. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction.

Cash and cash equivalents

Cash and cash equivalents include short term, highly liquid investments that mature within three months of purchase.

Other current assets

Other current assets are comprised of the current portion of VAT receivables of foreign operations and Canadian goods and services tax receivables, bank deposits held for decommissioning obligations, prepaid expenses, and supplies inventory.

Inventory

Inventory is valued at the lower of cost and net realizable value. Inventory cost is determined using the weighted average method. Supplies inventory includes all costs to purchase and other costs incurred in bringing the inventory item to its existing location and condition.

Exploration and evaluation assets

All costs directly related to exploration and evaluation activities for which technical feasibility and commercial viability have yet to be determined are initially capitalized and include costs to acquire and maintain unproved properties, geological, geophysical, drilling, sampling, testing, appraisal and asset retirement. Costs incurred prior to acquiring the legal right to explore an area are charged to earnings.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and then transferred to oil and gas properties. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to earnings as exploration and evaluation expense. Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest the carrying amount exceeds the recoverable amount. Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Oil and gas properties

All costs directly associated with the acquisition and development of oil and gas properties are capitalized on an area-by-area basis for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, gathering, storage, processing facilities, infrastructure completion, asset retirement costs, historical costs and transfers of exploration and evaluation assets. Oil and gas properties are depleted on a unit-of-production basis over the proved plus probable reserves and total project capital expenditures including future development costs.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Other equipment

Other equipment includes office equipment, which is depreciated over 3-6 years. Useful lives and residual values are reviewed at each reporting date.

Where an item of property, plant and equipment consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Impairment

Oil and gas properties and other equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any indication of impairment exists an estimate of the asset's or CGU's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment expense is charged to expense which reduces the carrying amount to its recoverable amount. Impairment expenses related to continuing operations are recognized in profit and loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment expense may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment expense is reversed only if there has been objective evidence of a change in the estimates used to determine the asset's recoverable amount since the last impairment expense was recognized and the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment expense been recognized for the asset in prior years.

Income taxes

Income taxes are comprised of current and deferred income taxes. Income tax is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is recognized in equity.

Current income tax expense is the expected income tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting period, adjusted for any income tax reassessments from prior periods.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect accounting or taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax assets are reviewed at each reporting date.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and current tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Uncertain tax positions

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Stock based compensation

The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model which employs various assumptions, based on management's best estimates at the time of grant, which impact the fair value calculated and ultimately, the expense that is recognized. The value of the stock options is recognized as an expense over the vesting period with an offsetting increase to contributed surplus. The expense is recognized on a graded basis, being higher in earlier years and lower in later years. Consideration paid for shares on exercise of the stock options will be added to share capital together with the amount of any contributed surplus that arose as a result of the grant of the exercised stock options. The Company does not capitalize stock based compensation costs.

Revenue recognition

The Company produces and sells natural gas and condensate. Sales are recognized when control of the products has transferred, being when the products are delivered to a customer. Delivery occurs when the products have been shipped to the specific location, the risks of loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the Company has objective evidence that all criteria for acceptance have been satisfied. Revenue is recognized based on the price specified in the sales contract. No element of financing is deemed present as the sales are made with credit terms of thirty days or less, which is consistent with market practice.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

The Company applies a practical expedient of IFRS 15 “Revenue from contracts with customers” (IFRS 15) and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company’s performance completed to date. The Company also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it’s no longer probable that an outflow of economic benefits will be required, the provision is reversed.

Decommissioning obligations

Decommissioning obligations comprise present obligations for well abandonment, facility retirement and site restoration and are measured at the present value of the expected expenditures to be incurred based on projected remediation plans, current industry practices and technology and prevailing legislation. Increases in decommissioning obligations resulting from the passage of time are recorded as accretion expense. The cost is capitalized as a component of oil and gas properties and amortized as depletion and depreciation expense.

Changes in the estimated obligations resulting from revisions to the estimated timing, cost, or changes in the discount rate are recognized as a change in the decommissioning obligations and the related asset retirement cost.

Net income (loss) per share

The Company presents basic and diluted net income (loss) per share data for its common shares, calculated by dividing the net income (loss) attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share does not adjust the income (loss) attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Financial instruments - Classification and Measurement

The Company classifies its financial assets in the amortized cost measurement category which include assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method. The Company's amortized cost category is comprised of cash and cash equivalents, trade and other receivables and bank deposits. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies financial assets if and when its business model for managing those assets changes.

The Company's classifies its financial liabilities in the amortized cost measurement category which includes accounts payable.

Financial instruments - Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9 "Financial Instruments" (IFRS 9), which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Assets and liabilities held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition and the sale is expected to be completed within one year from the date of classification.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less cost of disposal, with impairments recognized in the consolidated statement of comprehensive income (loss). An impairment loss is recognized for any initial or subsequent write-down of the asset or disposal group to fair value less costs to dispose. Non-current assets and liabilities held for sale are presented separately in current assets and liabilities within the consolidated statement of financial position. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated statement of financial position is not restated.

The results of discontinued operations are shown separately in the consolidated statements of comprehensive income (loss) and cash flows and comparative figures are restated.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Operating leases and right of use assets

Qualifying leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

New standards and interpretations not yet adopted

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2021 and have not been applied in preparing the financial statements as of and for the year ended December 31, 2020:

In January 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively. The Company is assessing the impact of these amendments on its financial statements.

In May 2020, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" to require proceeds received from selling items produced while the entity is preparing the asset for its intended use to be recognized in net earnings, rather than as a reduction in the cost of the asset. The amendments are effective January 1, 2022 with early adoption permitted. The Company is assessing the impact of these amendments on its financial statements.

In August 2020, IASB issued Interest Rate Benchmark Reform (Phase 2) in response to the Financial Stability Board's mandated reforms to InterBank Offered Rates ("IBORs"), with financial regulators proposing that they be replaced by a number of new local currency denominated alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively, with early adoption permitted. The Company is assessing the impact of IBOR reform and the IASB amendments and does not expect that these amendments will have a significant impact on the Company's financial statements.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

4. Assets and liabilities held for sale and discontinued operations:

On September 23, 2019 (“Effective Date”) Condor’s wholly owned subsidiary, Falcon Oil & Gas Ltd (“Falcon”) entered into a binding agreement to sell its 100% interests in the Shoba production contract, Taskuduk production contract and associated field equipment (“Shoba Sale”) for total proceeds of United States dollars (“USD”) 24.6 million.

As of the Effective Date, the related Shoba and Taskuduk net assets and liabilities were reclassified to assets and liabilities held for sale and the results of Shoba and Taskuduk operations, previously presented within the Kazakhstan reportable segment, have been presented as discontinued operations for all current and prior periods. The transaction required various consents and confirmations from the Government of Kazakhstan and was completed on September 9, 2020 (“Closing Date”). The related net assets and liabilities held for sale have been de-recognized and the gain on sale was recognized as part of net income from discontinued operations in 2020.

The buyer (“Shoba Buyer”) had paid USD 23.1 million as of the Closing Date and the total proceeds were reduced by USD 0.7 million as an adjustment to the purchase consideration for the net revenues minus operating costs from the properties which attributed to the Shoba Buyer from December 25, 2019 until the Closing Date. The Shoba Buyer paid an additional USD 0.2 million in September 2020, USD 0.2 million in October 2020 and the remaining USD 0.4 million in November 2020.

Financial information relating to the discontinued operations is presented in Note 20.

5. Cash and cash equivalents:

As at December 31 (000’s)	2020	2019
Cash at bank	12,277	2,890
Short-term deposits	30	45
	12,307	2,935

Cash at bank earns interest at floating rates based on bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on expected cash requirements and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents approximates its carrying value due to its short-term nature.

6. Other current assets:

As at December 31 (000’s)	2020	2019
Prepaid expenses	417	577
Restricted bank deposits	306	345
Supplies inventory	164	291
Current portion of VAT receivables (Note 8)	116	3,566
Crude oil inventory	-	51
	1,003	4,830

In September 2020, the VAT payable related to the Shoba Sale (Note 4) was offset against the current portion of VAT receivables. The restricted bank deposits are denominated in USD and reserved for decommissioning obligations related to the Zharkamys Contract.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

7. Property, plant and equipment:

(000's)	Oil and gas properties	Other equipment	Total
Cost			
As at December 31, 2018	57,088	1,675	58,763
Capital expenditures	1,753	2	1,755
Right-of-use lease assets	-	147	147
Change in decommissioning costs	384	-	384
Foreign currency translation adjustment	(5,155)	(150)	(5,305)
Reclassified as assets held for sale (Note 4)	(25,713)	-	(25,713)
As at December 31, 2019	28,357	1,674	30,031
Capital expenditures	92	96	188
Right-of-use lease assets	-	15	15
Disposals	(261)	-	(261)
Change in decommissioning costs	273	-	273
Foreign currency translation adjustment	(5,484)	(318)	(5,802)
As at December 31, 2020	22,977	1,467	24,444
Accumulated depletion, depreciation and impairment			
As at December 31, 2018	(13,861)	(1,494)	(15,355)
Depletion and depreciation	(4,030)	(167)	(4,197)
Impairment	(4,293)	-	(4,293)
Foreign currency translation adjustment	1,589	165	1,754
Reclassified as assets held for sale (Note 4)	7,093	-	7,093
As at December 31, 2019	(13,502)	(1,496)	(14,998)
Depletion and depreciation	(1,837)	(129)	(1,966)
Impairment	(5,868)	-	(5,868)
Foreign currency translation adjustment	2,724	290	3,014
As at December 31, 2020	(18,483)	(1,335)	(19,818)
Net book value			
As at December 31, 2019	14,855	178	15,033
As at December 31, 2020	4,494	132	4,626

Oil and gas properties include field equipment and capital inventory of \$1.0 million (2019: \$1.5 million) which are not subject to depletion.

As an indicator of impairment was noted, the Company tested the property, plant and equipment in Turkey for impairment as at December 31, 2020 and determined that the carrying amount of the Poyraz Ridge and Destan CGU exceeded its recoverable amount of \$1.6 million (2019: \$11.5 million), resulting in an impairment expense of \$5.9 million included in depletion, depreciation and impairment (2019: \$4.3 million). Future cash flows for the CGU declined due to lower expected natural gas reserves and natural gas sales prices.

The recoverable amount was determined based on fair value less costs of disposal and calculated based on the discounted future cash flows of the proved plus probable reserves as of December 31, 2020 using forward prices and cost estimates, prepared by the Company's independent qualified reserves evaluators (Level 3). The carrying amount of the Poyraz Ridge and Destan CGU is reflected net of the related decommissioning obligations for impairment testing purposes.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

The forward commodity prices used to determine future cash flows from the Company's reserves in Turkey are:

As at December 31, 2020	2021	2022	2023	2024	2025	2026
Natural gas price (USD/Mcf)	5.35	5.46	5.57	5.68	5.79	5.91
Condensate price (USD/barrel)	31.35	34.68	35.48	36.29	37.13	37.97

The forward commodity prices used to determine future cash flows from the Company's reserves in Turkey are:

As at December 31, 2019	2020	2021	2022	2023	2024	2025	2026	2030
Natural gas price (USD/Mcf)	7.39	7.54	7.69	7.85	8.00	8.16	8.33	9.01
Condensate price (USD/barrel)	56.25	56.86	58.12	59.40	60.70	62.04	63.40	69.12

The evaluation of discounted future cash flows was performed using a discount rate of 15% (2019: 15%) and an inflation rate of 2% (2019: 2%), which is used by the Company's independent qualified reserves evaluators in preparing their assessment of reserves. Based on the individual characteristics of the asset, other economic and operating factors are also considered, which may increase or decrease the implied discount rate.

The sensitivity analysis below shows the impact that a change in the discount rate or forward commodity prices would have on impairment testing for the CGU:

	Increase (decrease) to impairment
1% increase in the discount rate	30
1% decrease in the discount rate	(30)
5% increase in the forward price estimates	(364)
5% decrease in the forward price estimates	368

8. Other long term assets:

As at December 31 (000's)	2020	2019
Non-current VAT receivables	1,281	1,575
Non-current bank deposits	1,756	2,035
	3,037	3,610

VAT receivables are available for offset against VAT collected on future domestic sales and available for refund related to future export sales. VAT receivables in Kazakhstan are discounted from the expected date of receipt using a discount rate of 7.6% (2019: 8.2%) which estimates the market rate of return on a similar instrument. The total undiscounted VAT receivables, including current portion (Note 6) and non-current portion, amounts to \$1.7 million as at December 31, 2020 (2019: \$5.4 million).

The non-current bank deposits are substantially all denominated in USD and are invested in special interest bearing accounts comprised of \$1.6 million reserved for decommissioning obligations in Kazakhstan and Turkey and \$0.2 million related to the Poyraz Ridge pipeline surface access expropriation in Turkey.

9. Provisions:

As at December 31 (000's)	2020	2019
Beginning non-current portion	2,397	2,775
Increase in liabilities	-	19
Reclassified from (to) current portion	39	-
Change in estimates	297	365
Accretion expense	220	277
Transferred to liabilities held for sale (Note 4)	-	(701)
Foreign currency translation adjustment	(532)	(338)
Ending non-current portion	2,421	2,397
Beginning current portion	345	357
Change in estimates	-	-
Reclassified from (to) non-current portion	(39)	-
Foreign currency translation adjustment	-	(12)
Ending current portion	306	345

Provisions are comprised of decommissioning obligations which are estimated based on the expected costs to abandon existing wells and facilities and for site restoration along with the estimated timing of future payments. At December 31, 2020 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$2.8 million (December 31, 2019: \$3.2 million), which are expected to be incurred between 2021 and 2026.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 9.6% (December 31, 2019: 7.8%) and risk free discount rate of 10.5% (December 31, 2019: 9.5%).

10. Share capital

The Company has authorized an unlimited number of common shares without nominal or par value and an unlimited number of first and second preferred shares without nominal or par values. As of December 31, 2020 the number of common shares issued is 44,165,100 (December 31, 2019: 44,165,100).

In conjunction with the credit facility which was repaid and cancelled in the first quarter of 2020, the lender holds one million warrants exercisable into one million common shares at \$0.35 per share on or before December 31, 2021 ("Warrants").

11. Income (loss) per share:

Per share amounts are calculated using a weighted average number of common shares of 44,165,100 for the year ended December 31, 2020 (2019: 44,165,100 shares). Outstanding stock options (Note 12) and the outstanding Warrants (Note 10) have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive. The Company treats the common shares as either dilutive or anti-dilutive based on net loss from continuing operations. If the common shares are anti-dilutive at this level they are treated as anti-dilutive for all other per share calculations

12. Stock based compensation:

The Company has a stock option plan under which the Board may grant options for the purchase of common shares to directors, officers and employees for up to 10% of the outstanding common shares. The Board establishes the exercise price of options at the date of grant, provided that such price shall not be less than the volume weighted average trading price of the shares on the TSX for the five trading days immediately preceding the date of grant. The options are granted for a term of five years and fully vest after either two or three years

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

from the date of grant. Each outstanding option is exercisable to acquire one common share of the Company.

The number and weighted average exercise prices of share options are as follows:

	Number of options	Weighted average exercise price
Outstanding as at December 31, 2018	4,046,000	1.18
Granted	606,500	0.24
Forfeited	(162,500)	(0.78)
Expired	(218,500)	(3.35)
Outstanding as at December 31, 2019	4,271,500	0.95
Granted	1,030,000	0.52
Forfeited	(424,166)	(0.78)
Expired	(893,000)	(0.69)
Outstanding as at December 31, 2020	3,984,334	0.69

Details of the stock options outstanding as at December 31, 2020 are as follows:

Exercise price	Options outstanding		Options vested	
	Number	Average remaining life in years	Number	Average remaining life in years
\$0.22	452,334	3.0	312,669	2.9
\$0.33	100,000	3.8	33,333	3.8
\$0.51	275,000	4.9	-	-
\$0.53	755,000	4.6	251,672	4.6
\$0.59	1,582,000	2.0	1,582,000	2.0
\$1.33	580,000	0.3	580,000	0.3
\$1.50	240,000	0.6	240,000	0.6
	3,984,334	2.5	2,999,674	1.9

As of December 31, 2020, there are 3,984,334 stock options outstanding with a weighted average exercise price of \$0.69 (December 31, 2019: \$0.95). The 2,999,674 options exercisable at December 31, 2020 had a \$0.76 weighted average exercise price (December 31, 2019: \$1.09). In August 2020, 755,000 stock options were granted and the fair value of \$0.31 per option was estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 0.3% risk free interest rate; a 85.5% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.53; and an exercise price of \$0.53. In November 2020, 275,000 stock options were granted and the fair value of \$0.29 per option was estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 0.3% risk free interest rate; a 84.8% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.51; and an exercise price of \$0.51.

13. Compensation expenses:

The aggregate payroll expense was \$4.1 million of salary and benefits (2019: \$3.6 million) and \$0.2 million of stock based compensation expense (2019: \$0.2 million). Key management comprises the executive officers and directors of the Company. Key management's compensation was comprised of \$1.5 million of salary and benefits (2019: \$1.3 million) and stock based compensation of \$0.1 million (2019: \$0.1 million). In the event of termination or change of control, members of key management (excluding directors) are each entitled to two years' annual compensation.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

14. Finance income and expense:

For the year ended December 31 (000's)	2020	2019
Finance income:		
Interest income on bank deposits	69	66
Accretion of long term VAT receivables	174	313
	<u>243</u>	<u>379</u>
Finance expenses:		
Interest expense	(64)	(1,227)
Charges on discounting VAT	(167)	(99)
Accretion of provisions	(224)	(223)
Amortization of loan issuance costs	(25)	(480)
Loss on loan modification	-	(141)
Amortization of warrants	(13)	(264)
Other	(69)	-
	<u>(562)</u>	<u>(2,434)</u>

15. Income taxes:

Deferred tax assets are reviewed at each reporting date and are recognized for deductible temporary differences and unused tax losses only if it's probable that future taxable amounts will be available to utilize those temporary differences and losses.

The provision for income taxes differs from the amount computed by applying the statutory rates to earnings before taxes. The difference results from the following items:

For the year ended December 31 (000's)	2020	2019
Loss from continuing operations before income tax expense	(14,936)	(13,870)
Profit from discontinued operations before income tax expense	12,885	3,770
Net loss	(2,051)	(10,100)
Statutory rate	24.0%	26.5%
Tax recovery at statutory rate	(492)	(2,677)
Effect on taxes of:		
Change in unrecognized deferred tax assets	125	2,531
Change in tax rate	186	1,149
Permanent component of capital gain (loss)	141	(1,001)
Non-deductible expenses / non-taxable income	(584)	(644)
Stock based compensation expense	50	56
Foreign tax rate differentials	55	463
Other	519	123
Income tax expense	<u>-</u>	<u>-</u>

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

No deferred tax assets were recognized on the statement of financial position for the following deductible temporary differences:

As at December 31 (000's)	2020	2019
Property and equipment	136,206	136,013
Income tax losses	66,378	92,968
Other	2,636	2,738
Total deductible temporary differences	205,220	231,719

For income tax purposes, the Company has losses carried forward as at December 31, 2020 which may be used to reduce future years' taxable income. In Canada, the Company has \$43.1 million of losses carried forward which expire between 2028 and 2040; in the Netherlands, \$12.1 million which expire between 2021 and 2029; in Turkey, \$7.0 million which expire between 2021 and 2025; and in the United States, \$4.2 million which expire between 2028 and 2040.

At December 31, 2020, there is approximately \$83.9 million (2019: \$74.1 million) of undistributed retained earnings in foreign subsidiaries. Due to applicable foreign tax legislation only portion of such undistributed retained earnings in foreign subsidiaries may be subject to dividend withholding taxes in the country of origin upon repatriation. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Company controls the relevant entities and has no committed plans to remit the earnings in the foreseeable future.

The Dutch Tax Authority ("DTA") has issued notices of assessment to New Horizon Energy Netherlands B.V., a wholly owned Company subsidiary based in the Netherlands ("New Horizon") amounting to 8.4 million Euros (equivalent to \$13.1 million using December 31, 2020 exchange rate) related to taxation years 2013-2016, including accrued interest. New Horizon has filed an objection and the matter is under further review by the DTA. The assessments seek to disallow interest expense deductions related to inter-company loans New Horizon received from Condor and the majority of which were onward loaned to Falcon on a back-to-back basis to fund exploration and development activities in Kazakhstan. The Company expects to resolve these matters with the DTA without incurring any taxes payable.

Assessing whether it is probable that the DTA will accept an uncertain tax treatment and the estimate of the provision, requires significant management judgment related to the interpretation and application of complex tax laws and regulations.

16. Commitments and contingent liabilities:*Work commitments*

The work commitments for the next twelve months pursuant to the Zharkamys exploration contract in Kazakhstan are \$4.5 million and are comprised mainly of drilling three exploration wells. The work commitments may be amended from time to time in accordance with planned exploration and development activities proposed by the Company and approved by the Government of Kazakhstan and additional amounts could be significant. In addition, any exploration period extensions or subsequent development periods may carry additional work commitments, which could be significant. Non-fulfilment of work commitments for Zharkamys could result in punitive actions including the suspension or revocation of the contract and financial work commitment shortfalls may be subject to penalties of 30% of the shortfall.

There are no work commitments related to the Poyraz Ridge or Destan operating licenses in Turkey.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Kazakhstan local content requirements

Kazakhstan subsoil users are required to give preference to local companies and domestic products when procuring goods, works and services. Local content deficiencies may be subject to penalties of 30% of the shortfall. Subsoil users are also required to follow prescribed procurement procedures including certain tendering rules and regulations.

17. Financial risk management:*Credit risk*

Credit risk arises from the possibility that a counterparty to which the Company provides goods or services is unable or unwilling to fulfil their obligations.

The maximum exposure to credit risk at year end is as follows:

<u>Carrying amounts as at December 31 (000's)</u>	2020	2019
Cash and cash equivalents	12,307	2,935
Trade and other receivables	278	334
Other current financial assets	424	3,911
Other long term assets	3,037	3,610
	<u>16,046</u>	<u>10,790</u>

The Company limits its exposure to credit risk on cash and cash equivalents and bank deposits by depositing and investing in banks with investment grade credit ratings.

Credit risk on trade receivables is related mainly to natural gas marketers, and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. During 2020, sales of natural gas and related receivables in Turkey and sales of condensate in Turkey were each sold to one respective customer and are therefore subject to concentration risk (2019: one respective customer). As at December 31, 2020, the one gas marketer in Turkey represented 58% of outstanding trade receivables (December 31, 2019: one gas marketer in Turkey represented 100%).

Credit risk is mitigated by management's policies and practices. In Turkey, the Company holds a bank guarantee provided by the buyer of its natural gas amounting to two month's estimated gas sales as security on gas sales receivables. The Company has examined its accounts receivable as at December 31, 2020 and concluded that the amount is valid and collectible.

Other long term assets include Kazakhstan VAT receivables which may be offset against VAT collected on future domestic sales or refunded on future export sales. The Company has not made any provision and considers the amounts to be fully recoverable.

Liquidity risk and capital management

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations and commitments and repaying liabilities as they fall due. The Company requires liquidity mainly to satisfy financial obligations and operating requirements related to activities in Kazakhstan and Turkey. The Company has the ability to adjust its capital structure by issuing new equity or debt, disposing of assets and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed.

In January 2020, the Company received USD 18.7 million of the Shoba Sale proceeds (Note 4) and used a portion to repay all outstanding long term borrowings. The non-revolving credit facility and related security was subsequently discharged and the Company currently has no debt.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

To manage capital and operating spending, budgets are prepared, monitored regularly and updated as required. The Company also utilizes authorizations for expenditures to manage capital spending.

The cash flows presented in the tables below are the contractual undiscounted cash flows and accordingly certain amounts differ from the amounts included in the statement of financial position. The Company's undiscounted contractual obligations are as follows:

(000's)	< 1 year	> 1 year	Total
<u>As at December 31, 2020</u>			
Accounts payable and accrued liabilities	1,657	-	1,657
Lease liabilities	13	-	13
<u>As at December 31, 2019</u>			
Accounts payable and accrued liabilities	4,714	-	4,714
Borrowings including interest until maturity	6,909	-	6,909
Lease liabilities	47	-	47

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of market price changes: foreign currency exchange rates, interest rates and commodity prices.

Foreign currency exchange risk

The Company is exposed to significant foreign currency risk as the Company's natural gas sales and a substantial portion of foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRL, and a significant portion of the Company's cash and cash equivalents is held in USD. The Company had no forward exchange rate contracts in place at or during the years ended December 31, 2020 and 2019.

During the year ended December 31, 2020, the CAD appreciated from 1.30 per 1.00 USD to 1.27, the KZT depreciated from 381.18 per 1.00 USD to 420.71, and TRL depreciated from 5.94 per 1.00 USD to 7.34, which led to a foreign exchange loss of \$0.2 million (2019: loss of \$0.6 million) related mainly to USD denominated cash and cash equivalents held by the Company.

During the year ended December 31, 2020, the KZT depreciated from 292 per 1.00 CAD to 329 and TRL depreciated from 4.54 per 1.00 CAD to 5.73 resulting in a \$3.8 million translation loss adjustment through equity (2019: loss of \$2.2 million).

A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate at December 31, 2020 would have changed profit or loss by \$0.1 million (2019: \$0.1 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. The Company does not have any debt as at December 31, 2020 and therefore has no current exposure to changes in interest rates, except for interest rates on cash and cash equivalents.

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Commodity price risk

The Company is exposed to changes in commodity prices inherent in the oil and natural gas industry. Commodity prices for petroleum and natural gas are impacted by economic events and factors which are beyond the Company's control. Fluctuations in petroleum and natural gas prices may have a significant effect on the Company's results of operations and cash flows from operating activities and, subsequently, may also affect the value of the oil and gas properties and the level of spending for exploration and development. The majority of the Company's production is sold under short-term contracts, which exposes the Company to the risk of price movements. The Company had no forward price contracts or derivatives in place at or during the years ended December 31, 2020 or 2019.

Natural gas sales in Turkey are domestic sales via pipeline at prices published monthly by the state owned pipeline transportation company BOTAS. The benchmark for Condor's gas sales in Turkey is BOTAS Level 2 wholesale tariffs less a marketing differential.

18. Supplementary cash flow information:

The Company received interest income of \$0.1 million for the year ended December 31, 2020 (2019: \$0.1 million) and did not pay any income tax in 2020 or 2019.

The following table provides a reconciliation of cash flows arising from financing activities:

Long term borrowings (000's)	
As at December 31, 2018	9,177
Repayment of borrowings	(2,637)
Interest paid on borrowings	(1,212)
Non-cash movements	1,518
As at December 31, 2019	6,846
Repayment of borrowings	(6,966)
Interest paid on borrowings	(64)
Non-cash movements	184
As at December 31, 2020	-

19. Segmented information:

The Company has the following operating and reporting segments related to foreign subsidiaries, and presents the following segmented information:

(000's)	Corporate	Kazakhstan	Turkey	Total
As at December 31, 2020				
Exploration and evaluation assets	-	252	-	252
Property, plant and equipment	97	748	3,781	4,626
Total assets	12,058	4,281	5,164	21,503
Total liabilities	1,549	520	2,328	4,397
As at December 31, 2019				
Property, plant and equipment	62	1,253	13,718	15,033
Total assets	2,445	27,446	15,594	45,485
Total liabilities	8,202	12,025	2,505	22,732

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Segmented information (000's)	Corporate	Kazakhstan	Turkey	Total
For the year ended December 31, 2020				
Property, plant and equipment expenditures	92	4	92	188
Revenue				
Natural gas sales	-	-	2,707	2,707
Condensate sales	-	-	73	73
Royalties	-	-	(351)	(351)
Total revenue	-	-	2,429	2,429
Expenses				
Production costs	-	-	1,207	1,207
Transportation and selling	-	-	543	543
General and administrative	4,953	1,165	957	7,075
Depletion and depreciation	73	37	1,856	1,966
Impairment expense	-	-	5,868	5,868
Stock based compensation	210	-	-	210
Finance income	(243)	-	-	(243)
Finance expense	562	-	-	562
Foreign exchange loss	177	-	-	177
Net loss from continuing operations	(5,732)	(1,202)	(8,002)	(14,936)
Net income from discontinued operations	-	12,885	-	12,885
Net income (loss)	(5,732)	11,683	(8,002)	(2,051)
For the year ended December 31, 2019				
Property, plant and equipment expenditures	12	1	139	152
Revenue				
Natural gas sales	-	-	5,006	5,006
Condensate sales	-	-	163	163
Royalties	-	-	(647)	(647)
Total revenue	-	-	4,522	4,522
Expenses				
Production costs	-	-	1,225	1,225
Transportation and selling	-	-	445	445
General and administrative	5,070	1,018	966	7,054
Depletion and depreciation	115	35	2,367	2,517
Impairment expense	-	-	4,293	4,293
Stock based compensation	211	-	-	211
Finance income	(379)	-	-	(379)
Finance expense	2,434	-	-	2,434
Foreign exchange loss	592	-	-	592
Net loss from continuing operations	(8,043)	(1,053)	(4,774)	(13,870)
Net income from discontinued operations	-	3,770	-	3,770
Net income (loss)	(8,043)	2,717	(4,774)	(10,100)

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

20. Discontinued operations:

The results of Shoba and Taskuduk operations, previously presented within the Kazakhstan reportable segment, are presented as discontinued operations for all current and prior periods and comprise the following:

For the year ended December 31	2020	2019
Revenue		
Crude oil sales	2,039	7,996
Royalties	(25)	(106)
Total revenue	2,014	7,890
Expenses		
Production costs	814	1,837
General and administrative	185	272
Depletion and depreciation	-	1,747
Gain on Shoba Sale (Note 4)	(12,086)	-
Total income (expenses)	11,087	(3,856)
Finance income	2	3
Finance expense	(138)	(266)
Foreign exchange loss	(80)	(1)
Net income from discontinued operations	12,885	3,770
Basic net income per share	0.29	0.08