# Consolidated Financial Statements

## For the years ended December 31, 2017 and 2016

March 20, 2018

## Independent Auditor's Report

**To the Shareholders of Condor Petroleum Inc.**

We have audited the accompanying consolidated financial statements of Condor Petroleum Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive income (loss), cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Condor Petroleum Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants**

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

**Condor Petroleum Inc.**
Consolidated Statements of Financial Position
Stated in thousands of Canadian dollars

| As at December 31 | Note | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 3,910 | 21,531 |
| Trade and other receivables | | 976 | 1,061 |
| Other current assets | 6 | 5,440 | 2,132 |
| Total current assets | | 10,326 | 24,724 |
| | | | |
| Exploration and evaluation assets | 7 | - | 57,415 |
| Property, plant and equipment | 8 | 57,690 | 46,181 |
| Deferred tax assets | 18 | 3,357 | - |
| Other long term assets | 9 | 6,257 | 9,637 |
| Total assets | | 77,630 | 137,957 |
| | | | |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | 2,608 | 4,526 |
| Current portion of long term borrowings | 10 | 7,958 | - |
| Current portion of other long-term liabilities | 11 | 461 | 495 |
| Current portion of provisions | 12 | 1,019 | 264 |
| Total current liabilities | | 12,046 | 5,285 |
| | | | |
| Long term borrowings | 10 | 5,125 | - |
| Other long term liabilities | 11 | 2,547 | 2,980 |
| Provisions | 12 | 2,756 | 3,972 |
| Total liabilities | | 22,474 | 12,237 |
| | | | |
| **Equity** | | | |
| Share capital | 13 | 271,688 | 271,688 |
| Contributed surplus | | 21,125 | 20,229 |
| Translation reserve | | (70,267) | (65,475) |
| Deficit | | (167,390) | (100,722) |
| Total equity | | 55,156 | 125,720 |
| Total liabilities and equity | | 77,630 | 137,957 |

Commitments and contingent liabilities (Note 19);

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 | Note | 2017 | 2016 |
|---|---|---|---|
| **Revenue** | | | |
| Crude oil sales | | 5,312 | 1,532 |
| Natural gas sales | | 340 | - |
| Total revenue | | 5,652 | 1,532 |
| | | | |
| **Expenses** | | | |
| Production costs | | 1,700 | 502 |
| Royalty expense | | 168 | 39 |
| Transportation and selling expense | | 593 | - |
| General and administrative | | 8,041 | 9,133 |
| Transaction costs | | - | 1,509 |
| Exploration and evaluation expense | 2 | 58,184 | - |
| Depletion and depreciation | | 2,842 | 992 |
| Stock based compensation | | 114 | 849 |
| Total expenses | | (71,642) | (13,024) |
| | | | |
| Finance income | 17 | 773 | 425 |
| Finance expense | 17 | (3,531) | (811) |
| Foreign exchange loss | | (1,277) | (1,817) |
| Net loss, before tax | | (70,025) | (13,695) |
| | | | |
| Deferred income tax recovery | 18 | 3,357 | 1,803 |
| Net loss | | (66,668) | (11,892) |
| | | | |
| Foreign currency translation adjustment | | (4,792) | (2,476) |
| Comprehensive loss | | (71,460) | (14,368) |
| | | | |
| Basic and diluted net loss per share | 14 | (1.54) | (0.29) |

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 | Note | 2017 | 2016 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net loss | | (66,668) | (11,892) |
| Items not affecting cash: | | | |
| Depletion and depreciation | | 2,842 | 992 |
| Exploration and evaluation expense | 2 | 56,615 | - |
| Deferred income tax recovery | 18 | (3,357) | (1,803) |
| Stock based compensation | | 114 | 849 |
| Non-cash finance income | | (600) | (251) |
| Non-cash finance expenses | 17 | 3,531 | 811 |
| Unrealized foreign exchange (gain) loss | | 1,237 | 1,893 |
| Changes in non-cash working capital | | (1,890) | 210 |
| Cash used in operating activities | | (8,176) | (9,191) |
| **Investing activities:** | | | |
| Exploration and evaluation expenditures | 7 | - | (1,019) |
| Property, plant and equipment expenditures | 8 | (19,272) | (15,663) |
| Changes in non-cash working capital | | (1,830) | (1,007) |
| Cash used in investing activities | | (21,102) | (17,689) |
| **Financing activities** | | | |
| Net proceeds from borrowings | 21 | 12,403 | - |
| Cash from financing activities | | 12,403 | - |
| Change in cash | | (16,875) | (26,880) |
| Effect of foreign exchange on cash | | (746) | (1,871) |
| Cash and cash equivalents, beginning | 5 | 21,531 | 50,282 |
| Cash and cash equivalents, ending | 5 | 3,910 | 21,531 |

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[1] | Share capital | Contributed surplus | Translation reserve | Deficit | Total equity |
|---|---|---|---|---|---|---|
| As at December 31, 2015 | 34,612,087 | 263,035 | 19,380 | (62,999) | (88,830) | 130,586 |
| Issued on business combination (Note 4) | 8,653,013 | 8,653 | - | - | - | 8,653 |
| Stock based compensation expense | - | - | 849 | - | - | 849 |
| Foreign currency translation adjustment | - | - | - | (2,476) | - | (2,476) |
| Net loss | - | - | - | - | (11,892) | (11,892) |
| As at December 31, 2016 | 43,265,100 | 271,688 | 20,229 | (65,475) | (100,722) | 125,720 |
| Stock based compensation expense | - | - | 114 | - | - | 114 |
| Warrants issued (Note 10) | - | - | 782 | - | - | 782 |
| Foreign currency translation adjustment | - | - | - | (4,792) | - | (4,792) |
| Net loss | - | - | - | - | (66,668) | (66,668) |
| As at December 31, 2017 | 43,265,100 | 271,688 | 21,125 | (70,267) | (167,390) | 55,156 |

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

[1] On March 24, 2016, the Company's shares were consolidated on a ten-to-one basis. The share consolidation has been applied retrospectively.

## 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 (the "financial statements") of the Company as at and for the years ended December 31, 2017 and 2016 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on March 20, 2018 by the Board of Directors.

*Nature of operations:*

Condor has a 100% interest in and operates the Poyraz Ridge and Destan operating licenses located in the Gallipoli Peninsula in western Turkey. The operating licenses were converted in 2015 from an exploration license which had been originally awarded in 2004. The Poyraz Ridge operating license was awarded for an initial eight year term and the Destan operating license was awarded for an initial five year term and each of these licenses may be extended for up to twenty years including the initial term.

The Company has 100% interests in and operates the Shoba and Taskuduk oilfields in Kazakhstan. The Shoba production contract, which provides for a term of 12 years, and the Taskuduk production contract, which provides for a term of 11 years, were both signed in September 2016.

## 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. The company's subsidiary in the Netherlands, which has a branch in Turkey ("Turkey Branch"), has a Turkish Lira ("TRY") functional currency.

The financial statements have been prepared on the historical cost basis, except for net assets acquired as a result of business combinations, which are measured at fair value as of the respective acquisition dates.

*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.

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:

i. *Reserve estimates*

Amounts recorded for depreciation and depletion and assessing the valuation of property and equipment for impairment are based on estimates of oil and natural gas reserves. By their nature, the estimates of reserves, including future sales prices, domestic versus export sales mix, 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 oil and gas reserves are evaluated by an independent qualified reserves evaluator.

ii. *Business combinations*

The purchase price allocation of the assets acquired as part of business combinations is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities, including the fair value of property and equipment, other long-term assets and provisions. Consequently, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings, due to the impact on future depreciation and depletion expense as well as impairment tests.

iii. *Impairment*

Estimates include volumes of recoverable reserves, future commodity 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 infrastructures, 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 losses and reversals.

iv. *Zharkamys exploration contract extension*

The Company's Zharkamys exploration contract ("Zharkamys Contract") with the Ministry of Energy of the Government of Kazakhstan ("Ministry") was due to expire on December 14, 2016. Prior to this date, the Kazakhstan Chamber of International Commerce and subsequently the Kazakhstan Civil Court ("Civil Court") confirmed that a force majeure event had occurred which, under Kazakhstan subsurface use law, can be the basis for the Zharkamys Contract validity period to be extended for a period of 630 days. In May 2017, the Kazakhstan Court of Appeal ("Court of Appeal"), pursuant to an appeal filed by the Ministry, released its ruling that the force majeure event was not recognized and reversed the decision of the Civil Court. As a result of the Court of Appeal ruling there was uncertainty regarding the Company's legal rights to extend the Zharkamys Contract and the related exploration and evaluation assets in the amount of $56.6 million were derecognized as at March 31, 2017. The Company referred the case to the Kazakhstan Supreme Court ("Supreme Court") and in November 2017 the Supreme Court released its ruling which overturned both the Civil Court and the Court of Appeal rulings and referred the case back to the Civil Court for further review by a new panel of judges. On March 1, 2018 the Civil Court released its ruling which confirmed that the force majeure event had occurred. The Ministry has the right to appeal the Civil Court ruling within 30 calendar days following the issuance of the ruling. IFRS does not allow the Company to reverse the exploration and evaluation assets derecognition.

v. *Depletion*

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

vi. *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 12). 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.

vii. *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 15).

viii. *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 18). 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.

ix. *Other long term assets and other long term liabilities*

Other long term assets and other long term liabilities are subject to estimates regarding the timing and amounts of future receipts and payments, discount rates and related cash flows (Notes 9 and 11). A change in the timing of cash flows or discount rates may impact earnings 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. 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.

Other long term liabilities are amounts to be reimbursed to the Government of Kazakhstan for historical costs incurred on the Company's properties by the Government prior to the Company's acquisition of the properties and include expenditures for drilling, seismic and other geological and geophysical works. The historical cost obligations are non-interest bearing and comprise USD and KZT denominated liabilities and are discounted based on the estimated timing of future payments at the historical risk-free rates.

## 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, 2017 the Company has the following significant and wholly owned subsidiaries:

- New Horizon Energy Netherlands B.V. (Netherlands)
- 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.

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.

*Business combinations*

The Company uses the acquisition method to account for business combinations. Assets acquired and liabilities assumed in a business combination are recorded at fair value at the time of acquisition. The determination of fair value requires estimates, assumptions and judgments that are subject to measurement uncertainty.

*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, supplies inventory and crude oil 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. Crude oil inventory includes all costs of production, storage, processing, transportation, royalties and attributable depletion expense on produced but unsold crude oil.

*Exploration and evaluation assets*

All costs directly related to exploration and evaluation activities are initially capitalized. Exploration and evaluation costs are expenditures on areas for which technical feasibility and commercial viability have yet to be determined and include costs associated with unproved property acquisitions, geological and geophysical, decommissioning obligations, exploration and evaluation drilling, sampling, testing and appraisals. 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.

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 loss is charged to expense which reduces the carrying amount to its recoverable amount. Impairment losses 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 losses 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 loss 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 loss 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 loss 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.

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.

*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*

Crude oil and natural gas sales are recorded in the period in which the product has been delivered to the customer, the significant risks and rewards of ownership have been transferred to the customer, the price is determinable, and collection of the sales price is reasonably assured.

*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.

*Financial instruments*

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost. Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company assesses at the end of each reporting period whether a financial asset is impaired. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit and loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit and loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Other financial liabilities are financial liabilities that are not quoted on an active market and with no intention of being traded. Other financial liabilities include accounts payable and accrued liabilities, and borrowings. Accounts payable are initially recognized at the amount required to be paid less any discount or rebates to reduce the payables to estimated fair value. Accounts payable are subsequently measured at amortized cost using the effective interest method. The current borrowings were recognized initially at fair value, net of any transaction costs incurred, which are capitalized and subsequently amortized using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. The fair value of financial liabilities classified as FVTPL, are recognized in earnings.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

*Changes in Accounting Policies and 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, 2018 and have not been applied in preparing the financial statements as of and for the year ended December 31, 2017:

On January 13, 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 “Revenue From Contracts With Customers” has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of the new standard on the financial statements.

On July 24, 2014, the IASB issued IFRS 9, “Financial Instruments” (“IFRS 9”) to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement.” IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company will apply the new standard retrospectively and elect to use the practical expedients permitted under the standard. Comparative periods will not be restated.

On May 28, 2014, the IASB published IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018. The standard may be applied retrospectively or using a modified retrospective approach. The Company will apply the standard using the modified retrospective approach recognizing the cumulative impact of adoption in retained earnings as of January 1, 2018. Comparative periods will not be restated.

These new standards are not expected to have any material impact on the financial statements when adopted.

## 4. Business combination:

On January 7, 2016 the Company entered into an agreement with Marsa Energy Inc. ("Marsa") to acquire all of the issued and outstanding common shares of Marsa based on an exchange ratio of 1.84326 Condor common shares for each Marsa common share (the "Marsa Transaction"). On March 24, 2016 the Marsa Transaction was completed and Condor issued 8,653,013 common shares to the Marsa shareholders. Based on the $1.00 closing price of Condor common shares listed on the Toronto Stock Exchange on the completion date on the post share consolidation basis, the total purchase price for the Marsa Transaction is $8,653,013. Marsa owned a 100% interest in the Poyraz Ridge and Destan operating licenses in Turkey and the purchase price has been allocated to the fair value of the net assets acquired as follows (000's):

| | |
|---|---:|
| Other current assets | 64 |
| Property, plant and equipment | 9,197 |
| Other long term assets | 890 |
| Accounts payable and accrued liabilities | (306) |
| Provisions | (1,192) |
| Total net assets acquired | 8,653 |

## 5. Cash and cash equivalents:

| As at December 31 (000's) | **2017** | **2016** |
|---|---:|---:|
| Cash at bank | 2,610 | 852 |
| Short-term deposits | 1,300 | 20,679 |
| | 3,910 | 21,531 |

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) | 2017 | 2016 |
|---|---|---|
| Current portion of VAT receivables (Note 9) | 3,415 | 710 |
| Bank deposits | 1,194 | 497 |
| Prepaid expenses | 452 | 352 |
| Supplies inventory | 269 | 266 |
| Crude oil inventory | 110 | 307 |
| | 5,440 | 2,132 |

The bank deposits are comprised of $1.0 million denominated in USD and $0.2 million denominated in TRY and include $0.6 million reclassified from other long term assets as of March 31, 2017 related to the Zharkamys Contract derecognition.

## 7. Exploration and evaluation assets:

Exploration and evaluation assets comprise the Zharkamys territory in Kazakhstan.

| As at December 31 (000's) | 2017 | 2016 |
|---|---|---|
| **Cost** | | |
| Beginning balance | 57,415 | 82,962 |
| Capital expenditures | - | 1,019 |
| Transfers to property and equipment (Note 8) | (800) | (23,128) |
| Exploration and evaluation expense | (56,615) | - |
| Change in decommissioning costs and other | - | (192) |
| Foreign currency translation adjustment | - | (3,246) |
| Ending balance | - | 57,415 |
| **Accumulated depletion** | | |
| Beginning balance | - | (4,286) |
| Transfers to property and equipment (Note 8) | - | 4,041 |
| Foreign currency translation adjustment | - | 245 |
| Ending balance | - | - |
| Ending net book value | - | 57,415 |

The Company derecognized exploration and evaluation assets of $56.6 million as of March 31, 2017 due to the uncertainty regarding the Company's legal rights to have the Zharkamys Contract extended as described in Note 2. Capital inventory of $0.8 million was reclassified as of March 31, 2017 from exploration and evaluation assets to oil and gas properties and comprises drilling equipment to be utilized at the Shoba and Taskuduk oilfields.

## 8. Property, plant and equipment:

| (000's) | Oil and gas properties | Other equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| As at December 31, 2015 | - | 5,230 | 5,230 |
| Acquisition of Marsa (Note 4) | 8,842 | 355 | 9,197 |
| Capital expenditures | 15,578 | 85 | 15,663 |
| Net transfers from exploration and evaluation assets (Note 7) | 19,087 | - | 19,087 |
| Other transfers | 3,602 | (3,602) | - |
| Change in decommissioning and historical costs | 856 | - | 856 |
| Foreign currency translation adjustment | (591) | (27) | (618) |
| As at December 31, 2016 | 47,374 | 2,041 | 49,415 |
| Capital expenditures | 19,230 | 42 | 19,272 |
| Transfers from exploration and evaluation assets (Note 7) | 1,030 | (230) | 800 |
| Change in decommissioning costs | (399) | - | (399) |
| Foreign currency translation adjustment | (5,622) | (150) | (5,772) |
| As at December 31, 2017 | 61,613 | 1,703 | 63,316 |
| **Accumulated depletion and depreciation** | | | |
| As at December 31, 2015 | - | (2,291) | (2,291) |
| Depletion and depreciation | (798) | (375) | (1,173) |
| Transfers | (1,228) | 1,228 | - |
| Foreign currency translation adjustment | 130 | 100 | 230 |
| As at December 31, 2016 | (1,896) | (1,338) | (3,234) |
| Depletion and depreciation | (2,660) | (68) | (2,728) |
| Transfers | 236 | (236) | - |
| Foreign currency translation adjustment | 238 | 98 | 336 |
| As at December 31, 2017 | (4,082) | (1,544) | (5,626) |
| **Net book value** | | | |
| As at December 31, 2016 | 45,478 | 703 | 46,181 |
| As at December 31, 2017 | 57,531 | 159 | 57,690 |

Oil and gas properties comprise the Shoba and Taskuduk properties in Kazakhstan and the Poyraz Ridge and Destan operating licenses in Turkey. Oil and gas properties include $3.4 million (2016: $ 21.7 million) which is not depleted.

As an indicator of impairment was noted, the Company has tested the Kazakhstan property, plant and equipment for impairment as of December 31, 2017. The forward commodity prices used to determine future cash flows from the Company's reserves are:

| USD per barrel | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2037 | Average annual change to 2037 (%) |
|---|---|---|---|---|---|---|---|---|---|
| Export field price | 40.84 | 38.64 | 40.74 | 46.07 | 50.17 | 50.89 | 52.39 | 72.36 | 2.5 |
| Domestic field price | 27.60 | 26.45 | 27.40 | 30.61 | 32.55 | 33.16 | 33.81 | 43.78 | 2.0 |

The evaluation of discounted future cash flows was performed using a sales mix of 100% domestic in 2018 and 65% export and 35% domestic thereafter based on estimated domestic sales obligations, a discount rate of 12% percent and an inflation rate of 2%, which is common industry practice and 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. No impairment was identified as of December 31, 2017.

## 9. Other long term assets:

| As at December 31 (000's) | **2017** | **2016** |
|---|---|---|
| Non-current VAT receivables | 4,874 | 7,369 |
| Non-current bank deposits | 1,383 | 2,268 |
| | 6,257 | 9,637 |

Undiscounted VAT receivables (including non-current and current portion) of $9.9 million (2016: $8.9 million) are available for offset against VAT collected on future domestic sales and available for refund related to future export sales. The VAT receivables in Kazakhstan are discounted from the expected date of receipt using a discount rate of 9.3% (2016: 10.7%), which estimates the market rate of return on a similar instrument. The VAT receivables in Turkey are not discounted given the proximity of the expected date of receipt and are classified as other current assets (Note 6).

The non-current bank deposits, which are comprised of $1.1 million denominated in USD and $0.3 million denominated in TRY, are invested in special interest bearing accounts and the funds are reserved for decommissioning obligations. As of March 31, 2017, the Company reclassified $0.6 million to other current assets related to the Zharkamys Contract derecognition.

## 10. Long term borrowings:

On January 10, 2017 the Company established a USD 10.0 million secured non-revolving credit facility (the "Credit Facility") and on February 1, 2017 (the "Receiving Date") received the loan proceeds equivalent to $13.1 million from the arm's length lender. The Credit Facility bears interest at 14%, matures three years from the Receiving Date and provides for a one year repayment holiday whereby interest for the first year is due on January 31, 2018 followed by eight payments of USD 1.25 million of principal plus interest due quarterly in arrears commencing March 31, 2018. The Credit Facility is secured by customary security including a general security agreement of all present and future assets of Condor and a movable assets pledge agreement establishing a first-ranking pledge over the commercial enterprise, any or all assets and any gas sales receivables of the Turkey Branch.

In conjunction with the Credit Facility, the lender received a warrant certificate exercisable into one million common shares of Condor at $2.35 per share on or before January 31, 2020 (the "Warrants"). The Warrants have an issue date fair value of $0.8 million which, along with loan issuance costs of $0.7 million are amortized over the term of the loan using the effective interest method. The fair value of each warrant is estimated using the Black-Scholes option pricing model assuming: a 3.0 year expected life; a 1.0% risk free

interest rate; a 77% expected volatility, which has been based on historical share price volatility of the Company and share price of $1.80 per share.

The loan proceeds are available to fund capital expenditures related to drilling, infrastructure and workovers at Poyraz Ridge and for general corporate purposes. As of December 31, 2017, the current portion of the loan of $8.0 million is comprised of $1.7 million in interest payable and $6.3 million of principal. There are no financial covenants associated with the Credit Facility. The Company is in compliance with all non-financial covenants. The interest for the first year was paid on January 31, 2018.

## 11. Other long term liabilities:

Other long term liabilities are amounts to be reimbursed to the Government of Kazakhstan for historical costs and include expenditures for drilling, seismic and other geological and geophysical works. The historical costs became payable in equal quarterly installments over a ten year period commencing with the signing of the Taskuduk production contract in September 2016. The total undiscounted historical costs as at December 31, 2017 is $4.2 million (2016: $5.0 million), is non-interest bearing and comprises USD denominated liabilities of $2.2 million and KZT denominated liabilities of $2.0 million. Excluding the current portion of $0.5 million (2016: $0.5 million), the non-current portion of historical costs has been discounted to $2.5 million (2016: $3.0 million) based on the estimated timing of future payments and a weighted average 8% discount rate based on historical risk-free rates.

## 12. Provisions:

| As at December 31 (000's) | **2017** | **2016** |
|---|---|---|
| Beginning non-current portion of provisions | 3,972 | 1,686 |
| Marsa acquisition (Note 4) | - | 1,192 |
| Increase in liabilities | 356 | 550 |
| Reclassified to current portion of provisions | (758) | - |
| Change in estimates | (719) | 705 |
| Accretion expense | 311 | 232 |
| Foreign currency translation adjustment | (406) | (393) |
| Ending non-current portion of provisions | 2,756 | 3,972 |
| | | |
| Beginning current portion of provisions | 264 | 266 |
| Reclassified from non-current portion of provisions | 758 | - |
| Foreign currency translation adjustment | (3) | (2) |
| Ending current portion of provisions | 1,019 | 264 |

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, 2017 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are $4.7 million (December 31, 2016: $4.4 million), which are expected to be incurred between 2018 and 2034.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 5.2% (December 31, 2016: 6.9%) and weighted average discount risk free rate associated with the assets of 7.4% (December 31, 2016: 7.9%).

## 13. 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, 2017 the number of common shares issued is 43,265,100 (December 31, 2016: 43,265,100).

## 14. Income (loss) per share:

Per share amounts are calculated using a weighted average number of common shares of 43,265,100 for the year ended December 31, 2017 (2016: 41,279,183 shares). Outstanding stock options (Note 15) 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.

## 15. 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 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, 2015 | 3,218,000 | 5.85 |
| Granted | 1,025,000 | 1.33 |
| Forfeited | (91,500) | 3.57 |
| Expired | (757,500) | 14.00 |
| Outstanding as at December 31, 2016 | 3,394,000 | 2.73 |
| Granted | 240,000 | 1.50 |
| Forfeited | (130,000) | 4.75 |
| Expired | (475,000) | 5.00 |
| Outstanding as at December 31, 2017 | 3,029,000 | 2.31 |

Details of the stock options outstanding as at December 31, 2017 are as follows:

| | Options outstanding | | Options vested | |
|---|---|---|---|---|
| Exercise price | Number | Average remaining life in years | Number | Average remaining life in years |
| $1.33 | 945,000 | 3.1 | 586,669 | 3.4 |
| $1.50 | 948,000 | 2.6 | 873,000 | 2.1 |
| $1.60 | 362,500 | 2.2 | 362,500 | 2.2 |
| $3.00 | 30,000 | 1.4 | 30,000 | 1.4 |
| $3.40 | 203,500 | 1.3 | 203,500 | 1.3 |
| $5.50 | 540,000 | 0.3 | 540,000 | 0.3 |
| | 3,029,000 | 2.2 | 2,595,669 | 2.0 |

As at December 31, 2017, there are 3,029,000 stock options outstanding with a weighted average exercise price of $2.31 (December 31, 2016: $2.73). The 2,595,669 options exercisable at December 31, 2017 had a $2.47 weighted average exercise price (December 31, 2016: $3.32). In April 2017, 240,000 stock options were granted and had a fair value of $0.78 per option. The fair value of each option awarded is estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 1.0% risk free interest rate; a 75% expected volatility, which has been based on historical share price volatility of the Company, share price of $1.49 and exercise price of $1.50.

The stock options granted in 2016 were approved and ratified by the shareholders at the annual general meeting on June 22, 2017. Upon approval and ratification, the stock options were valued at the approval date and had a fair value of $0.41. The fair value of each option awarded is estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 0.7% risk free interest rate; a 72% expected volatility, which has been based on historical share price volatility of the Company, share price of $0.97 and exercise price of $1.33. The share based compensation expense is calculated assuming a 17% expected forfeiture rate.

## 16. Compensation expenses:

The aggregate payroll expense was $5.7 million of salary and benefits (2016: $5.6 million) and $0.1 million of stock based compensation expense (2016: $0.8 million). Key management comprises the executive officers and directors of the Company. Key management's compensation was comprised of $1.8 million of salary and benefits (2016: $1.6 million) and stock based compensation of $0.1 million (2016: $0.7 million). In the event of termination or change of control, members of key management (excluding directors) are each entitled to two years' annual compensation.

## 17. Finance income and expense:

| For the year ended December 31 (000's) | **2017** | **2016** |
|---|---|---|
| Finance income: | | |
| Interest income on bank deposits | 192 | 172 |
| Accretion of long term VAT receivables | 581 | 253 |
| | 773 | 425 |
| Finance expenses: | | |
| Interest expense | (1,685) | - |
| Charges on discounting VAT | (710) | (29) |
| Accretion of provisions and other long term liabilities | (628) | (782) |
| Amortization of loan issuance costs | (269) | - |
| Amortization of the warrants | (239) | - |
| | (3,531) | (811) |

## 18. Income taxes:

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) | **2017** | **2016** |
|---|---|---|
| Net loss, before tax | (70,025) | (13,695) |
| Statutory rate | 27% | 27% |
| Tax provision (recovery) at statutory rate | (18,907) | (3,697) |
| Effect on taxes of: | | |
| Change in unrecognized deferred tax assets | 8,656 | 973 |
| Permanent component of capital loss | (691) | 430 |
| Non-deductible expenses / non-taxable income | 921 | (87) |
| Stock based compensation expense | 31 | 229 |
| Foreign tax rate differentials | 6,588 | 21 |
| Other | 45 | 328 |
| Deferred income tax recovery | (3,357) | (1,803) |

For the year ended December 31, 2017 the Company recognized deferred tax recovery of $3.4 million (December 31, 2016: recovery of $1.8 million) arising from the recognition of a deferred tax asset of $3.4 million for the deductible temporary differences on Kazakhstan oil and gas properties and tax losses carried forward. No deferred tax assets were recognized on the statement of financial position for the following deductible temporary differences:

| As at December 31 (000's) | **2017** | **2016** |
|---|---|---|
| Property and equipment | 142,444 | 164,254 |
| Income tax losses | 95,840 | 34,362 |
| Other | 8,033 | 6,955 |
| Total deductible temporary differences | 246,317 | 205,571 |

For income tax purposes, the Company has losses carried forward as at December 31, 2017 which may be used to reduce future years' taxable income. In Canada, the Company has $30.3 million of losses carried forward which expire between 2028 and 2036. In the United States, the Company has $4.2 million of losses carried forward which expire between 2028 and 2036, in the Netherlands the Company has $18.3 million of losses carried forward that expire between 2019 and 2026, in Kazakhstan the Company has $34.3 million of losses carried forward that expire between 2025 and 2027 and in Turkey the Company has $8.7 million of losses carried forward that expire between 2018 and 2022.

At December 31, 2017, there is approximately $51.0 million (2016: $44.6 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.

## 19. Commitments and contingent liabilities:

The Company's contractual work commitments as at December 31, 2017 are as follows:

| (000's) | < 1 year | 1-3 years | 4-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Shoba | 4,519 | 5,398 | 1,040 | 2,111 | 13,068 |
| Taskuduk | 948 | 67 | 55 | 119 | 1,189 |

The Company has contractual work commitments pursuant to the Shoba and Taskuduk production contracts in Kazakhstan. These work commitments may be amended from time to time in accordance with planned development activities proposed by the Company and approved by the Government of Kazakhstan and additional amounts could be significant. During 2017, the capital expenditure portion of the Shoba work commitments were reduced from $16.9 million to $8.8 million and the remaining expenditures and development activities previously scheduled for 2017 were shifted into 2018 and 2019. Non-fulfillment of work commitments for Shoba or Taskuduk could result in punitive actions including the suspension or revocation of the respective contract in case financial work commitment fulfillment is less than thirty percent for two consecutive years. Financial work commitment shortfalls for development activities at Shoba and Taskuduk are not subject to penalties, while shortfalls on the training, social development and scientific research components may be subject to penalties of 1% of the shortfall.

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

*Operating leases*

Non-cancellable operating leases are payable $0.5 million in less than one year (2016: $0.2 million) and $0.4 million between one and four years (2016: $0.8 million).

*Excess profit tax*

Excess profit tax in Kazakhstan ranging at rates from zero to sixty percent is calculated based on the ratio of revenues versus expenditures in excess of 1.25. The Company has not been subject to excess profit tax to date and accordingly has not accrued any related costs but may be subject to excess profit tax in future periods.

*Kazakhstan local content requirements*

Kazakhstan subsoil users are required to give preference to local companies when procuring works and services and to follow prescribed procurement procedures including certain tendering rules and regulations. Local content deficiencies in works and services may be subject to penalties of 1% of the shortfall under the Shoba and Taskuduk production contracts.

## 20. 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 fulfill their obligations.

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

| Carrying amounts as at December 31 (000's) | **2017** | **2016** |
|---|---|---|
| Cash and cash equivalents | 3,910 | 21,531 |
| Trade and other receivables | 976 | 1,061 |
| Other current financial assets | 4,609 | 1,207 |
| Other long term assets | 6,257 | 9,637 |
| | 15,752 | 33,436 |

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. As at December 31, 2017 $3.6 million of cash and cash equivalents are invested with Canadian chartered banks, $0.1 million is held in the Netherlands, $0.1 million is held in Kazakhstan and $0.1 million is held in Turkey.

Credit risk on trade receivables is mainly related to crude oil and 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. Sales of crude oil and related receivables in Kazakhstan are with one customer and sales of natural gas and related receivables in Turkey are with one customer, and are therefore subject to concentration risk. This risk is mitigated by management's policies and practices related to credit risk. 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 and concluded that an allowance for doubtful accounts is not necessary and that the amount shown as accounts receivable 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.

At December 31, 2017 the Company had a working capital deficit of $1.7 million (December 31, 2016 – surplus of $19.4 million). The Company commenced gas production and sales in December 2017 and accordingly anticipates cash from operating activities to increase in 2018 and provide the necessary capital for oil and gas development activities and repayment of the loan principal and interest. Also, 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.

The Company does not have any externally imposed restrictions on its capital, except on the bank deposits for decommissioning obligations in Kazakhstan and Turkey, as discussed in Note 9.

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 differ from the amounts included in the statement of financial position because the amounts disclosed in the tables are the contractual undiscounted cash flows.

The Company’s contractual obligations as at December 31, 2017 are as follows:

| (000’s) | < 1 year | 1-3 years | 4-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 2,608 | - | - | - | 2,608 |
| Borrowings | 9,403 | 6,819 | - | - | 16,222 |
| Non-cancellable operating leases | 460 | 442 | - | - | 902 |
| Other long term liabilities (undiscounted) | 481 | 962 | 962 | 1,802 | 4,207 |

The Company’s contractual obligations as at December 31, 2016 are as follows:

| (000’s) | < 1 year | 1-3 years | 4-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 4,526 | - | - | - | 4,526 |
| Non-cancellable operating leases | 245 | 298 | 305 | 127 | 975 |
| Other long term liabilities (undiscounted) | 504 | 1,007 | 1,007 | 2,517 | 5,035 |

*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 a substantial portion of the Company’s foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRY, and a significant portion of the Company’s cash and cash equivalents and borrowings are held in USD. The Company had no forward exchange rate contracts in place at or during the years ended December 31, 2017 and 2016.

During the year ended December 31, 2017, the CAD appreciated from 1.34 per 1.00 USD to 1.25, which led to a foreign exchange loss of $1.1 million (2016: loss of $1.8 million) related mainly to USD denominated cash and cash equivalents and inter-company loans.

During the year ended December 31, 2017, the KZT depreciated from 247 per 1.00 CAD to 265 and TRY depreciated from 2.62 per 1.00 CAD to 3.02 resulting in a $4.8 million translation loss adjustment through equity (2016: loss of $2.5 million) and a $0.2 million foreign exchange loss related mainly to USD denominated inter-company loans.

A $0.01 change in the Canadian dollar to U.S. dollar exchange rate at December 31, 2017 would have changed profit or loss by $0.1 million (2016: $0.2 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. As indicated in Note 10, the interest rate on borrowings is fixed. Therefore, the Company has no current exposure to changes in interest rates, except for interest rates on cash and cash equivalents.

*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, 2017 or 2016.

*Fair value of financial instruments*

Loans and receivables include cash and cash equivalents, trade and other receivables, other current assets and other long term assets. Other financial liabilities include accounts payable and accrued liabilities, current and long term borrowings, and other long term liabilities. The fair value of cash and cash equivalents, accounts receivable, other current assets and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. The carrying value of other long term assets and other long term liabilities approximate their fair value as they are either discounted at, or carry interest incurred at certain market rates.

## 21. Supplementary cash flow information:

The Company received interest income of $0.2 million for the year ended December 31, 2017 (2016: $0.2 million) and did not pay any interest expense or income tax in 2017 or 2016.

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

| Long term borrowings (000's) | |
|---|---|
| As at December 31, 2016 | - |
| Loan proceeds | 13,089 |
| Loan issuance costs | (686) |
| Net proceeds from borrowings | 12,403 |
| Non-cash movements | 680 |
| As at December 31, 2017 | 13,083 |

## 22. 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, 2017** | | | | |
| Property, plant and equipment | 23 | 20,653 | 37,014 | 57,690 |
| Total assets | 3,804 | 32,567 | 41,259 | 77,630 |
| Total liabilities | 13,981 | 5,358 | 3,135 | 22,474 |
| **As at December 31, 2016** | | | | |
| Exploration and evaluation assets | - | 57,415 | - | 57,415 |
| Property, plant and equipment | 23 | 24,006 | 22,152 | 46,181 |
| Total assets | 22,610 | 91,924 | 23,423 | 137,957 |
| Total liabilities | 952 | 5,875 | 5,410 | 12,237 |

| (000's) | Corporate | Kazakhstan | Turkey | Total |
|---|---|---|---|---|
| **For the year ended December 31, 2017** | | | | |
| Property, plant and equipment expenditures | 12 | 23 | 19,237 | 19,272 |
| **Revenue** | | | | |
| Crude oil sales | - | 5,312 | - | 5,312 |
| Natural gas sales | - | - | 340 | 340 |
| **Expenses** | | | | |
| Production costs | - | 1,660 | 40 | 1,700 |
| Royalty expense | - | 124 | 44 | 168 |
| Transportation and selling expense | - | 579 | 14 | 593 |
| General and administrative | 3,809 | 1,556 | 2,676 | 8,041 |
| Exploration and evaluation expense | - | 56,615 | 1,569 | 58,184 |
| Depletion and depreciation | 13 | 2,719 | 110 | 2,842 |
| Stock based compensation | 114 | - | - | 114 |
| Finance income | (773) | - | - | (773) |
| Finance expense | 3,531 | - | - | 3,531 |
| Foreign exchange loss | 1,277 | - | - | 1,277 |
| Net loss, before tax | (7,971) | (57,941) | (4,113) | (70,025) |
| Deferred income tax recovery | - | 3,357 | - | 3,357 |
| Net loss | (7,971) | (54,584) | (4,113) | (66,668) |

| (000's) | Corporate | Kazakhstan | Turkey | Total |
|---|---|---|---|---|
| **For the year ended December 31, 2016** | | | | |
| Exploration and evaluation expenditures | - | 1,019 | - | 1,019 |
| Property and equipment expenditures | 16 | 402 | 15,245 | 15,663 |
| Total capital expenditures | 16 | 1,421 | 15,245 | 16,682 |
| **Revenue** | | | | |
| Crude oil sales | - | 1,532 | - | 1,532 |
| **Expenses** | | | | |
| Production costs | - | 502 | - | 502 |
| Royalty expense | - | 39 | - | 39 |
| General and administrative | 5,415 | 1,767 | 1,951 | 9,133 |
| Transaction costs | 1,509 | - | - | 1,509 |
| Depletion and depreciation | 19 | 926 | 47 | 992 |
| Stock based compensation | 849 | - | - | 849 |
| Finance income | (425) | - | - | (425) |
| Finance expense | 811 | - | - | 811 |
| Foreign exchange loss | 1,817 | - | - | 1,817 |
| Net loss, before tax | (9,995) | (1,702) | (1,998) | (13,695) |
| Deferred income tax recovery | 1,803 | - | - | 1,803 |
| Net loss | (8,192) | (1,702) | (1,998) | (11,892) |