



**Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**



## *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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- 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 a summary of significant accounting policies.

---

### *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.

---

### *Material uncertainty related to going concern*

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

---

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



---

### *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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, related safeguards.



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

**(signed) "PricewaterhouseCoopers LLP"**

Chartered Professional Accountants

Calgary, Alberta  
March 19, 2019

**Condor Petroleum Inc.**

Consolidated Statements of Financial Position

Stated in thousands of Canadian dollars

<b>As at December 31</b>		<b>2018</b>	<b>2017</b>
	Note		
<b>Assets</b>			
Cash and cash equivalents	4	1,690	3,910
Trade and other receivables		843	976
Other current assets	5	2,937	5,440
<b>Total current assets</b>		<b>5,470</b>	<b>10,326</b>
Property, plant and equipment	6	43,408	57,690
Deferred tax assets	16	-	3,357
Other long term assets	7	6,577	6,257
<b>Total assets</b>		<b>55,455</b>	<b>77,630</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		5,181	2,608
Current portion of long term borrowings	8	3,820	7,958
Current portion of other long term liabilities	9	469	461
Current portion of provisions	10	357	1,019
Deferred revenue		292	-
<b>Total current liabilities</b>		<b>10,119</b>	<b>12,046</b>
Long term borrowings	8	5,357	5,125
Other long term liabilities	9	2,318	2,547
Provisions	10	2,775	2,756
<b>Total liabilities</b>		<b>20,569</b>	<b>22,474</b>
<b>Equity</b>			
Share capital	11	271,931	271,688
Contributed surplus		21,638	21,125
Translation reserve		(77,223)	(70,267)
Deficit		(181,460)	(167,390)
<b>Total equity</b>		<b>34,886</b>	<b>55,156</b>
<b>Total liabilities and equity</b>		<b>55,455</b>	<b>77,630</b>

Going concern (Note 1)

Commitments and contingent liabilities (Note 17)

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)

<b>For the year ended December 31</b>		<b>2018</b>	<b>2017</b>
	Note		
<b>Revenue</b>			
Crude oil and natural gas sales	20	17,495	5,652
Royalties		(1,510)	(168)
<b>Total revenue</b>		<b>15,985</b>	<b>5,484</b>
<b>Expenses</b>			
Production costs		3,105	1,700
Transportation and selling		1,037	593
General and administrative		6,411	8,041
Exploration and evaluation	2	-	58,184
Depletion, depreciation and impairment	6	10,199	2,842
Stock based compensation	13	396	114
<b>Total expenses</b>		<b>(21,148)</b>	<b>(71,474)</b>
Finance income	15	468	773
Finance expense	15	(2,972)	(3,531)
Foreign exchange loss	18	(2,952)	(1,277)
<b>Net loss, before tax</b>		<b>(10,619)</b>	<b>(70,025)</b>
Deferred income tax recovery (expense)	16	(3,451)	3,357
<b>Net loss</b>		<b>(14,070)</b>	<b>(66,668)</b>
Basic and diluted net loss per share	12	(0.32)	(1.54)
Foreign currency translation adjustment		(6,956)	(4,792)
<b>Comprehensive loss</b>		<b>(21,026)</b>	<b>(71,460)</b>

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

<b>For the year ended December 31</b>		<b>2018</b>	<b>2017</b>
	Note		
<b>Operating activities:</b>			
Net loss		(14,070)	(66,668)
Items not affecting cash:			
Depletion, depreciation and impairment		10,199	2,842
Exploration and evaluation	2	-	56,615
Deferred income tax expense (recovery)	16	3,451	(3,357)
Stock based compensation		396	114
Loss on disposal of property, plant & equipment		88	-
Finance income		(408)	(600)
Finance expenses	15	2,972	3,531
Unrealized foreign exchange loss		2,698	1,237
<hr/>			
Cash from (used in) operating activities before changes in non-cash working capital		5,326	(6,286)
Changes in non-cash working capital		2,146	(1,890)
<hr/>			
Cash from (used in) operating activities		7,472	(8,176)
<b>Investing activities:</b>			
Proceeds from the sale of property, plant & equipment		102	-
Property, plant and equipment expenditures	6	(5,820)	(19,272)
<hr/>			
Changes in non-cash working capital		2,505	(1,830)
<hr/>			
Cash used in investing activities		(3,213)	(21,102)
<b>Financing activities</b>			
Net proceeds from borrowings	19	-	12,403
Repayment of borrowings	19	(3,666)	-
Interest paid on borrowings	19	(3,223)	-
<hr/>			
Cash from (used in) financing activities		(6,889)	12,403
<hr/>			
Change in cash		(2,630)	(16,875)
Effect of foreign exchange on cash		410	(746)
Cash and cash equivalents, beginning	4	3,910	21,531
<hr/>			
Cash and cash equivalents, ending	4	1,690	3,910

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)

	<b>Number of common shares</b>	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Translation reserve</b>	<b>Deficit</b>	<b>Total equity</b>
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 8)	-	-	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
Common shares issued (Note 11)	900,000	243	-	-	-	243
Stock based compensation expense	-	-	396	-	-	396
Warrants (Note 8)	-	-	117	-	-	117
Foreign currency translation adjustment	-	-	-	(6,956)	-	(6,956)
Net loss	-	-	-	-	(14,070)	(14,070)
As at December 31, 2018	44,165,100	271,931	21,638	(77,223)	(181,460)	34,886

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

## **Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

### **1. Corporate information and going concern:**

#### *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, 2018 and 2017 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on March 19, 2019 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 operating license is valid until 2023 and the Destan operating license is valid until November 2020 and each license may be extended, upon approval by the competent authority in Turkey, until 2035.

The Company has a 100% interest in and operates the Shoba and Taskuduk production contracts and oilfields in Kazakhstan. The Shoba production contract is valid until 2028 and the Taskuduk production contract is valid until 2027 and each production contract may be extended, upon approval by the competent authority in Kazakhstan, until 2041.

#### *Going concern*

These financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business as they become due. At December 31, 2018 the Company had accumulated losses of \$181.5 million since inception (December 31, 2017: \$167.4 million), a working capital deficit of \$4.6 million (December 31, 2017: deficit of \$1.7 million) and reported a net loss for the year ended December 31, 2018 of \$14.1 million (2017: \$66.7 million).

The Company's ability to continue as a going concern is dependent upon the ability to fund the repayment of existing borrowings by generating positive cash flows from operations, renegotiating the terms of the current borrowings, securing funding from additional debt or equity financing, disposing of assets or making other arrangements. There is no assurance that sufficient debt refinancing of existing borrowings, new financings, equity offerings or other arrangements can be completed on favorable terms, or at all. These conditions lend significant doubt as to the Company's ability to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. These financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities, reported amounts of revenue and expenses, and statement of financial position classifications used that would be necessary were the going concern assumption deemed to be inappropriate. Such adjustments could be material.

The Company's current development plan is aimed at increasing near term production and cash from operating activities and consists of re-completing one of the recently drilled wells and performing several workovers in Kazakhstan and performing several workovers in Turkey. There is no assurance that the Company will be successful with these initiatives and the outcome of these matters is uncertain.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

**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.

For the year ended December 31, 2017, the Company reclassified royalty expense to royalties for presentation purposes within the statement of comprehensive income (loss).

*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. 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 expenses and reversals.

*iii. 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”)

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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, ruled 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 ruling 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. In March 2018, the Civil Court ruling confirmed that the force majeure event had occurred, in April 2018 the Ministry appealed the Civil Court ruling and in May 2018 the Court of Appeal ruling upheld that the force majeure event had occurred. The Ministry did not appeal to the Supreme Court within the six months permitted by Kazakhstan law. The Company has submitted an application to the Ministry and is in the process of preparing and seeking approvals for the various development projects required for the 630 day extension.

*iv. 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.

*v. 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 10). 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.

*vi. 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 13).

*vii. 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 16). 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.

*viii. 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 7 and 9). A change in the timing

## **Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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 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.

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.

### *ix. Going concern*

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business as they become due. (Note 1).

### **3. Significant accounting policies:**

Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from January 1, 2018, the accounting policies set out below have been consistently applied to all the periods presented in these financial statements by the Company and its subsidiaries, unless otherwise stated.

#### *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, 2018 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.

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.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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, 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, asset retirement costs, 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.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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 expenses 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.

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

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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**Policy applied from January 1, 2018*

The Company produces and sells crude oil and natural gas. 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.

The Company applies a practical expedient of 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.

In its modified retrospective adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2018 and were previously accounted for under its previous revenue accounting policy.

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.

*Policy applied before January 1, 2018*

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



**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

determinable, and collection of the sales price is reasonably assured.

*Deferred revenue*

Deferred revenue is a liability and represents a performance obligation to provide crude oil to customers when payment has been received in advance and delivery has not yet occurred. The deferred revenue amount represents the cash received in advance, less the amount amortized for products delivered to date.

*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**Policy applied from January 1, 2018**Classification and Measurement*

From January 1, 2018, 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.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

The Company's classifies its financial liabilities in the amortized cost measurement category which includes accounts payable, current portion of long term borrowings and long term borrowings.

If the terms of long term borrowings change, the loan is treated as extinguished only when cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate is at least ten percent different from the discounted present value of the remaining cash flows of the original financial liability. If the change is less than ten percent, the change is considered to be a modification and the cash flows are rediscounted under the modified loan at the original effective interest rate and the resulting charge is taken to profit and loss on the date of modification.

*Impairment*

From January 1, 2018, 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, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

*Policy applied before January 1, 2018*

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 expense 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 expense decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment expense 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 expense is recognized in profit and loss.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

In relation to trade and other receivables, a provision for impairment is made and an impairment expense 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******(a) IFRS 9 Financial Instruments – Adoption***

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 effective January 1, 2018 and applied it retrospectively. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The adoption of IFRS 9 did not have a material impact on the financial statements.

***Classification and Measurement***

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Company’s business model for managing the financial assets. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Company at the time of transition.

As of January 1, 2018, the date of initial application of IFRS 9, the Company assessed which business models apply to the financial assets held by the Company and classified its financial instruments into the appropriate IFRS 9 categories. The classification and measurement of financial instruments under IFRS 9 did not have a material impact on the Company’s opening deficit as at January 1, 2018.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

The Company's financial assets and financial liabilities under IAS 39 comprised loans and receivables and other financial liabilities, respectively. As at January 1, 2018, the Company's financial assets and financial liabilities were reclassified to an amortized cost category under IFRS 9 and included cash and cash equivalents, trade and other receivables, bank deposits, accounts payable, current portion of long term borrowings and long term borrowings. There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS 39 to IFRS 9.

*Impairment of financial assets*

The Company's trade receivables are subject to IFRS 9's new expected credit loss model. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. As at December 31, 2018, 100% of the Company's trade receivables were investment grade, and 100% were outstanding for less than 30 days. The average expected credit loss on the Company's trade receivables was 0.5 percent as at December 31, 2018 (January 1, 2018 – 0.5 percent).

While the Company's cash and cash equivalents and bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment expense was immaterial.

*(b) IFRS 15 Revenue from Contracts with Customers – Adoption*

The Company has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 using the modified retrospective approach recognizing the cumulative impact of adoption in deficit as of January 1, 2018.

The adoption of IFRS 15 did not materially impact the timing or measurement of revenue.

***Changes in Accounting Policies and new standards and interpretations not yet adopted***

Certain new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2019 and have not been applied in preparing the financial statements as of and for the year ended December 31, 2018:

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the statement of financial position. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases and effectively treats all leases as finance leases. Certain short-term leases (less than twelve 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. 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.

**4. Cash and cash equivalents:**

As at December 31 (000's)	2018	2017
Cash at bank	1,645	2,610
Short-term deposits	45	1,300
	1,690	3,910

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

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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.

**5. Other current assets:**

As at December 31 (000's)	2018	2017
Current portion of VAT receivables (Note 7)	1,588	3,415
Bank deposits	357	1,194
Prepaid expenses	443	452
Supplies inventory	392	269
Crude oil inventory	157	110
	2,937	5,440

The bank deposits are denominated in United States Dollars ("USD") and include \$0.4 million reserved for decommissioning obligations related to the Zharkamys Contract.

**6. Property, plant and equipment:**

(000's)	Oil and gas properties	Other equipment	Total
<b>Cost</b>			
As at December 31, 2016	47,374	2,041	49,415
Capital expenditures	19,230	42	19,272
Transfers from exploration and evaluation assets	1,030	(230)	800
Change in decommissioning and historical costs	(399)	-	(399)
Foreign currency translation adjustment	(5,622)	(150)	(5,772)
As at December 31, 2017	61,613	1,703	63,316
Capital expenditures	5,741	79	5,820
Disposals	(211)	-	(211)
Change in decommissioning costs	(326)	-	(326)
Foreign currency translation adjustment	(9,729)	(107)	(9,836)
As at December 31, 2018	57,088	1,675	58,763
<b>Accumulated depletion and depreciation</b>			
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)
Depletion and depreciation	(6,363)	(47)	(6,410)
Disposals	22	-	22
Impairment	(3,798)	-	(3,798)
Foreign currency translation adjustment	360	97	457
As at December 31, 2018	(13,861)	(1,494)	(15,355)
<b>Net book value</b>			
As at December 31, 2017	57,531	159	57,690
As at December 31, 2018	43,227	181	43,408

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

Oil and gas properties comprise the Shoba and Taskuduk oilfields in Kazakhstan and the Poyraz Ridge and Destan gas fields in Turkey. Oil and gas properties include capital inventory and work in progress of \$3.6 million (2017: \$3.4 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 of December 31, 2018 and determined that the carrying amount of the Poyraz Ridge and Destan CGU exceeded its recoverable amount of \$21.2 million, resulting in an impairment expense of \$3.8 million included in depletion, depreciation and impairment. Future cash flows for the CGU declined due to lower expected production volumes and natural gas reserves.

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, 2018 using forward prices and cost estimates, prepared by the Company's independent qualified reserves evaluators (Level 3).

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

	2019	2020	2021	2022	2023	2024	2025	2030	Average annual change to 2030 (%)
Natural gas price USD/Mcf	7.18	7.32	7.47	7.62	7.77	7.92	8.08	8.92	2.0
Condensate price USD/barrel	52.23	55.18	57.63	60.25	61.69	62.95	64.38	71.67	2.0

The evaluation of discounted future cash flows was performed using a discount rate of 15% 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.

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	476
1% Decrease in the Discount Rate	(497)
5% Increase in the Forward Price Estimates	(1,386)
5% Decrease in the Forward Price Estimates	1,392

**7. Other long term assets:**

As at December 31 (000's)	2018	2017
Non-current VAT receivables	4,362	4,874
Non-current bank deposits	2,215	1,383
	6,577	6,257

Undiscounted VAT receivables (including non-current and current portion) of \$6.5 million (2017: \$9.2 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 8.6% (2017: 9.3%), 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 5).

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

The non-current bank deposits consist of \$2.0 million denominated in USD and \$0.2 million denominated in TRL, are invested in special interest bearing accounts and are comprised of \$1.7 million reserved for decommissioning obligations in Kazakhstan and Turkey and \$0.5 million related to the Poyraz Ridge pipeline surface access expropriation in Turkey.

**8. Long term borrowings:**

In January 2017, the Company established a USD 10.0 million secured non-revolving credit facility (the "Facility") and on February 1, 2017 received the loan proceeds equivalent to \$13.1 million from the arm's length lender. The Facility bears interest at 14% and interest for the first year was due and paid on January 31, 2018 and quarterly loan repayments of principal plus interest commenced on March 31, 2018.

On September 13, 2018 certain terms of the Facility were amended (the "Facility Amendment") and the six remaining quarterly payments of USD 1.25 million each have been changed to nine quarterly principal payments consisting of three payments of USD 0.1 million, followed by three payments of USD 0.9 million and then three payments of USD 1.5 million. The next principal payment of USD 0.1 million plus interest is due on March 31, 2019 and the final principal payment of USD 1.5 million plus interest is due September 30, 2020.

In conjunction with the Facility, the lender received one million warrants exercisable into one million common shares of Condor at \$2.35 per share on or before January 31, 2020 (the "Warrants") and the fair value of the Warrants and the loan issuance costs are amortized over the term of the loan using the effective interest method. In conjunction with the Facility Amendment, the Warrants were revised to reflect an exercise price of \$0.35 per share and extending the term until December 31, 2021. The revised Warrants have a Facility Amendment date fair value of \$0.1 million which, along with \$0.05 million loan issuance costs, are amortized over the remaining term of the loan using the effective interest method. The fair value of each warrant has been estimated using the Black-Scholes option pricing model assuming: 3.0 year expected life; 2.1% risk free interest rate; \$0.27 share price; and 75.1% expected volatility which reflects the Company's historical share price volatility.

In conjunction with the Facility Amendment, the Company paid a restructuring fee of USD 75,000 in cash and issued 900,000 common shares at \$0.40 per share which were recorded at fair value on the issuance date (Note 11).

The Company may voluntarily prepay the outstanding Facility principal amount in whole or in part at any time by paying a 2% fee of the amount prepaid prior to January 10, 2019 and a 1% fee of the amount prepaid thereafter. All net proceeds from any sale of the Company's properties in Kazakhstan shall be applied to repayment of the Facility with a fee equal to 2% of the amount prepaid.

The Facility is secured by customary security including a general security agreement over 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. The Credit Facility contains no financial covenants and the Company is in compliance with all non-financial covenants.

The Company performed quantitative and qualitative analysis of the loan restructuring and concluded that the loan terms have not been substantially modified and, as such, has been accounted for as a modification of the existing loan. The loan restructuring costs were capitalized as part of the existing loan. The cash flows under the modified loan were rediscounted at the original effective interest rate and the resulting loss on the loan modification of \$0.03 million was recognized as finance expense in the third quarter of 2018.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

**9. 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, 2018 is \$3.8 million (2017: \$4.2 million), is non-interest bearing and comprises USD denominated liabilities of \$2.1 million and KZT denominated liabilities of \$1.7 million. Excluding the current portion of \$0.5 million (2017: \$0.5 million), the non-current portion of historical costs has been discounted to \$2.3 million (2017: \$2.5 million) based on the estimated timing of future payments and a weighted average 8% discount rate based on historical risk-free rates.

**10. Provisions:**

As at December 31 (000's)	2018	2017
Beginning non-current portion	2,756	3,972
Increase in liabilities	254	356
Reclassified from (to) current portion	447	(758)
Change in estimates	(423)	(719)
Accretion expense	228	311
Foreign currency translation adjustment	(487)	(406)
Ending non-current portion	2,775	2,756
Beginning current portion	1,019	264
Change in estimates	(156)	-
Reclassified from (to) non-current portion	(447)	758
Foreign currency translation adjustment	(59)	(3)
Ending current portion	357	1,019

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, 2018 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$4.2 million (December 31, 2017: \$4.7 million), which are expected to be incurred between 2019 and 2031.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 8.1% (December 31, 2017: 5.2%) and risk free discount rate of 11.2% (December 31, 2017: 7.4%).

**11. 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, 2018 the number of common shares issued is 44,165,100 (December 31, 2017: 43,265,100).

On September 13, 2018 the Company issued 900,000 common shares at \$0.40 per share in conjunction with the satisfaction of an equity restructuring fee on long term borrowings, as described in Note 8. As required by IFRS, the shares were recorded at fair value based on the closing price of the Company's shares on the TSX on the issuance date.



**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

**12. Income (loss) per share:**

Per share amounts are calculated using a weighted average number of common shares of 43,533,867 for the year ended December 31, 2018 (2017: 43,265,100 shares). Outstanding stock options (Note 13) and the outstanding Warrants (Note 8) have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

**13. 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
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
Granted	1,872,000	0.59
Forfeited	(315,000)	0.73
Expired	(540,000)	(5.50)
Outstanding as at December 31, 2018	4,046,000	1.18

Details of the stock options outstanding as at December 31, 2018 are as follows:

<b>Exercise price</b>	<b>Options outstanding</b>		<b>Options vested</b>	
	<b>Number</b>	<b>Average remaining life in years</b>	<b>Number</b>	<b>Average remaining life in years</b>
\$0.59	1,752,000	4.3	584,003	4.3
\$1.33	785,000	2.1	785,000	2.1
\$1.50	948,000	1.8	868,000	1.7
\$1.60	342,500	1.2	342,500	1.2
\$3.00	30,000	0.4	30,000	0.4
\$3.40	188,500	0.3	188,500	0.3
	4,046,000	2.8	2,798,003	2.2

As of December 31, 2018, there are 4,046,000 stock options outstanding with a weighted average exercise price of \$1.18 (December 31, 2017: \$2.31). The 2,798,003 options exercisable at December 31, 2018 had a \$1.42 weighted average exercise price (December 31, 2017: \$2.47). In April, 2018, 1,872,000 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 1.9% risk free interest rate; a 75.5% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.58; and an exercise price of \$0.59.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

**14. Compensation expenses:**

The aggregate payroll expense was \$4.0 million of salary and benefits (2017: \$5.7 million) and \$0.4 million of stock based compensation expense (2017: \$0.1million). Key management comprises the executive officers and directors of the Company. Key management's compensation was comprised of \$1.3 million of salary and benefits (2017: \$1.8 million) and stock based compensation of \$0.2 million (2017: \$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.

**15. Finance income and expense:**

For the year ended December 31 (000's)	2018	2017
Finance income:		
Interest income on bank deposits	64	192
Accretion of long term VAT receivables	404	581
	468	773
Finance expenses:		
Interest expense	(1,546)	(1,685)
Charges on discounting VAT	(87)	(710)
Accretion of provisions and other long term liabilities	(469)	(628)
Amortization of loan issuance costs	(451)	(269)
Loss on loan modification	(35)	-
Amortization of warrants	(384)	(239)
	(2,972)	(3,531)

**16. 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. Due to the doubt regarding the Company's ability to continue as a going concern as disclosed in Note 1, the recoverability of the deferred tax assets in the normal course of business is uncertain and accordingly the deferred tax assets have been derecognized in 2018.

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)	2018	2017
Net loss, before tax	(10,619)	(70,025)
Statutory rate	27%	27%
Tax provision (recovery) at statutory rate	(2,867)	(18,907)
Effect on taxes of:		
Change in unrecognized deferred tax assets	2,899	8,656
Permanent component of capital gain (loss)	3,523	(691)
Non-deductible expenses / non-taxable income	(578)	921
Stock based compensation expense	107	31
Foreign tax rate differentials	267	6,588
Other	100	45
Deferred income tax expense (recovery)	3,451	(3,357)

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

For 2018 the Company recognized deferred income tax expense of \$3.5 million (December 31, 2017: recovery of \$3.4 million) arising from de-recognizing deferred tax asset related to 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)	2018	2017
Property and equipment	126,787	142,444
Income tax losses	141,747	95,840
Other	6,419	8,033
Total deductible temporary differences	274,953	246,317

For income tax purposes, the Company has losses carried forward as at December 31, 2018 which may be used to reduce future years' taxable income. In Canada, the Company has \$24.6 million of losses carried forward which expire between 2028 and 2036. In the United States, the Company has \$4.5 million of losses carried forward which expire between 2028 and 2036, in the Netherlands the Company has \$18.8 million of losses carried forward that expire between 2019 and 2026, in Kazakhstan the Company has \$85.9 million of losses carried forward that expire between 2025 and 2027 and in Turkey the Company has \$7.9 million of losses carried forward that expire between 2019 and 2022.

At December 31, 2018, there is approximately \$62.6 million (2017: \$51.0 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.

**17. Commitments and contingent liabilities:**

The Company's contractual work commitments for the next twelve months pursuant to the Shoba and Taskuduk production contracts in Kazakhstan equals \$4.3 million. 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. Non-fulfillment of work commitments for Shoba or Taskuduk could result in punitive actions including the suspension or revocation of the respective contract in the event that 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 one percent of the shortfall.

If the Zharkamys exploration contract is reinstated, any exploration period extension would carry additional work commitments, which could be significant.

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

There is material uncertainty about the Company's ability to continue as a going concern (Note 1).

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

*Operating leases*

Non-cancellable operating leases are payable \$0.3 million in less than one year (2017: \$0.5 million) and \$0.1 million between one and four years (2017: \$0.4 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.

**18. 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)	2018	2017
Cash and cash equivalents	1,690	3,910
Trade and other receivables	843	976
Other current financial assets	1,945	4,609
Other long term assets	6,577	6,257
	11,055	15,752

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 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 in Kazakhstan during 2018 were to three customers (2017: one customer) and sales of natural gas and related receivables in Turkey are with one customer (2017: one customer) and are therefore subject to concentration risk. In 2018, sales to two customers in Kazakhstan and one customer in Turkey accounted for \$3.1 million or 18%, \$1.7 million or 10%, and \$11.2 million or 64%, respectively, of consolidated sales (2017: \$5.3 million or 94% to one customer in Kazakhstan). As at December 31, 2018, the one customer in Turkey represented 100% of outstanding trade receivables (December 31, 2018: two customers, one in Turkey and one in Kazakhstan, represented a total of 100%).

Credit risk is mitigated by management's policies and practices. In Kazakhstan, currently all sales are made with 100% prepayment. 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, 2018 and concluded that the amount is valid and collectible.

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

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, and for repayment of long term borrowings. 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. On September 13, 2018 certain terms of the long term borrowings were amended (Note 8).

At December 31, 2018 the Company had accumulated losses of \$181.5 million since inception (December 31, 2017: \$167.4 million), a working capital deficit of \$4.6 million (December 31, 2017: deficit of \$1.7 million) and reported a net loss for the year ended December 31, 2018 of \$14.1 million (2017: \$66.7 million). These conditions indicate a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern (Note 1).

The Company's current development plan is aimed at increasing near term production and cash from operating activities and consists of re-completing one of the recently drilled wells and performing several workovers in Kazakhstan and performing several workovers in Turkey. There is no assurance that the Company will be successful with these initiatives and the outcome of these matters is uncertain.

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	1-3 years	4-5 years	> 5 years	Total
<b>As at December 31, 2018</b>					
Accounts payable and accrued liabilities	5,181	-	-	-	5,181
Borrowings including interest until maturity	5,070	6,568	-	-	11,638
Non-cancellable operating leases	319	125	-	-	444
Other long term liabilities (undiscounted)	490	980	980	1,345	3,795
<b>As at December 31, 2017</b>					
Accounts payable and accrued liabilities	2,608	-	-	-	2,608
Borrowings including interest until maturity	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

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

*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 crude oil and natural gas sales and a substantial portion of foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRL, and the Company's borrowings are denominated in USD. The Company had no forward exchange rate contracts in place at or during the years ended December 31, 2018 and 2017.

During the year ended December 31, 2018, the CAD depreciated from 1.25 per 1.00 USD to 1.36, the KZT depreciated from 332.33 per 1.00 USD to 384.20, and TRL depreciated from 3.79 per 1.00 USD to 5.26, which led to a foreign exchange loss of \$3.0 million (2017: loss of \$1.3 million) related mainly to a portion of USD denominated inter-company loans that are not considered part of the net investment in foreign operations.

During the year ended December 31, 2018, the KZT depreciated from 265 per 1.00 CAD to 282 and TRL depreciated from 3.02 per 1.00 CAD to 3.86 resulting in a \$7.0 million translation loss adjustment through equity (2017: loss of \$4.8 million).

A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate at December 31, 2018 would have changed profit or loss by \$0.1 million (2017: \$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. As indicated in Note 8, the interest rate on borrowings is fixed and 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, 2018 or 2017.

*Fair value of financial instruments*

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.

**Condor Petroleum Inc.**  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

**19. Supplementary cash flow information:**

The Company received interest income of \$0.1 million for the year ended December 31, 2018 (2017: \$0.2 million) and did not pay any income tax in 2018 or 2017.

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

<u>Long term borrowings (000's)</u>	
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
Repayment of borrowings	(3,666)
Interest paid on borrowings	(3,223)
Non-cash movements	2,983
As at December 31, 2018	9,177

**20. Segmented information:**

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

(000's)	<b>Corporate</b>	<b>Kazakhstan</b>	<b>Turkey</b>	<b>Total</b>
<b><u>As at December 31, 2018</u></b>				
Property, plant and equipment	18	20,389	23,001	43,408
Total assets	964	28,459	26,032	55,455
Total liabilities	10,038	8,322	2,209	20,569
<b><u>As at December 31, 2017</u></b>				
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

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2018 and 2017

(000's)	Corporate	Kazakhstan	Turkey	Total
<b><u>For the year ended December 31, 2018</u></b>				
Property, plant and equipment expenditures	9	3,877	1,934	5,820
<b>Revenue</b>				
Crude oil sales	-	5,820	-	5,820
Natural gas sales	-	-	11,204	11,204
Condensate sales	-	-	471	471
Royalties	-	(103)	(1,407)	(1,510)
Total revenue	-	5,717	10,268	15,985
<b>Expenses</b>				
Production costs	-	1,614	1,491	3,105
Transportation and selling	-	422	615	1,037
General and administrative	3,547	1,409	1,455	6,411
Depletion and depreciation	13	2,172	4,216	6,401
Impairment expense	-	-	3,798	3,798
Stock based compensation	396	-	-	396
Finance income	(468)	-	-	(468)
Finance expense	2,972	-	-	2,972
Foreign exchange loss	2,952	-	-	2,952
Net income (loss), before tax	(9,412)	100	(1,307)	(10,619)
Deferred income tax expense	-	(3,451)	-	(3,451)
Net loss	(9,412)	(3,351)	(1,307)	(14,070)
<b><u>For the year ended December 31, 2017</u></b>				
Property, plant and equipment expenditures	12	23	19,237	19,272
<b>Revenue</b>				
Crude oil sales	-	5,312	-	5,312
Natural gas sales	-	-	340	340
Royalties	-	(124)	(44)	(168)
Total revenue	-	5,188	296	5,484
<b>Expenses</b>				
Production costs	-	1,660	40	1,700
Transportation and selling	-	579	14	593
General and administrative	3,809	1,556	2,676	8,041
Exploration and evaluation	-	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)