



Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

Condor Petroleum Inc.

Consolidated Statements of Financial Position (Unaudited)
Stated in thousands of Canadian dollars

As at		September 30, 2019	December 31, 2018
	Note		
Assets			
Cash and cash equivalents		2,640	1,690
Trade and other receivables		359	843
Other current assets	3	5,073	2,937
		8,072	5,470
Assets held for sale	2	18,724	-
Total current assets		26,796	5,470
Property, plant and equipment	4	20,626	43,408
Other long term assets	5	3,474	6,577
Total assets		50,896	55,455
Liabilities			
Accounts payable and accrued liabilities		4,314	5,181
Lease liabilities	16	74	-
Current portion of long term borrowings	6	8,490	3,820
Current portion of other long term liabilities	7	-	469
Current portion of provisions	8	344	357
Deferred revenue		380	292
Deposit for assets held for sale	2	1,316	-
		14,918	10,119
Liabilities held for sale	2	3,200	-
Total current liabilities		18,118	10,119
Long term borrowings	6	-	5,357
Other long term liabilities	7	746	2,318
Provisions	8	2,110	2,775
Total liabilities		20,974	20,569
Equity			
Share capital	9	271,931	271,931
Contributed surplus		21,816	21,638
Translation reserve		(77,580)	(77,223)
Deficit		(186,245)	(181,460)
Total equity		29,922	34,886
Total liabilities and equity		50,896	55,455

Going concern (Note 1)

Commitments and contingent liabilities (Note 12)

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

Condor Petroleum Inc.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

Stated in thousands of Canadian dollars

(except for per share amounts)

For the period ended September 30		Three months 2019	Three months 2018 ¹	Nine months 2019	Nine months 2018 ¹
	Note				
Revenue					
Natural gas and condensate sales		1,097	2,166	4,274	8,981
Royalties		(140)	(262)	(531)	(1,081)
Total revenue		957	1,904	3,743	7,900
Expenses					
Production costs		326	368	870	1,195
Transportation and selling		96	102	368	413
General and administrative		1,642	1,385	4,558	4,576
Depletion and depreciation		481	684	1,886	2,974
Stock based compensation		29	85	178	329
Total expenses		(2,574)	(2,624)	(7,860)	(9,487)
Finance income		134	94	336	384
Finance expense		(717)	(916)	(1,831)	(2,109)
Foreign exchange loss		(733)	(3,112)	(1,515)	(4,172)
Net loss from continuing operations		(2,933)	(4,654)	(7,127)	(7,484)
Net income (loss) from discontinued operations	2	750	137	2,342	(3,050)
Net loss		(2,183)	(4,517)	(4,785)	(10,534)
Foreign currency translation adjustment		1,087	(6,438)	(357)	(9,899)
Comprehensive loss		(1,096)	(10,955)	(5,142)	(20,433)
Basic and diluted net income (loss) per share					
	10				
Net loss from continuing operations		(0.07)	(0.11)	(0.16)	(0.17)
Net income (loss) from discontinued operations		0.02	0.01	0.05	(0.07)
Net loss		(0.05)	(0.10)	(0.11)	(0.24)

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

¹ The comparative period has been restated to reflect discontinued operations as discussed in Note 2.

Condor Petroleum Inc.

Consolidated Statements of Cash Flows (Unaudited)
Stated in thousands of Canadian dollars

For the period ended September 30		Three months 2019	Three months 2018 ²	Nine months 2019	Nine months 2018 ²
	Note				
Operating activities:					
Net loss from continuing operations		(2,933)	(4,654)	(7,127)	(7,484)
Items not affecting cash:					
Depletion and depreciation		481	684	1,886	2,974
Stock based compensation		29	85	178	329
Finance income		(121)	(86)	(292)	(341)
Finance expenses		706	916	1,820	2,109
Unrealized foreign exchange loss		778	3,310	1,439	4,462
Cash from (used in) operating activities before changes in non-cash working capital		(1,060)	255	(2,096)	2,049
Changes in non-cash working capital		255	493	570	448
Cash from (used in) continuing operations		(805)	748	(1,526)	2,497
Cash from discontinued operations		1,860	1,550	5,221	3,582
Cash from operating activities		1,055	2,298	3,695	6,079
Investing activities:					
Property, plant and equipment expenditures	4	(108)	(344)	(218)	(2,071)
Proceeds from property, plant and equipment sales		337	-	337	-
Changes in non-cash working capital		(40)	(752)	(38)	(115)
Cash from (used in) continuing investing activities		189	(1,096)	81	(2,186)
Deposit for assets held for sale	2	1,316	-	1,316	-
Cash used in discontinued investing activities		(751)	(36)	(2,174)	(67)
Cash from (used in) investing activities		754	(1,132)	(777)	(2,253)
Financing activities					
Repayment of borrowings	14	-	-	(1,314)	(3,397)
Interest paid on borrowings	14	-	(139)	(663)	(2,872)
Lease payments	16	(29)	(348)	(84)	-
Cash used in continuing financing activities		(29)	(487)	(2,061)	(6,269)
Change in cash		1,780	679	857	(2,443)
Effect of foreign exchange on cash		35	(140)	93	(59)
Cash and cash equivalents, beginning		825	869	1,690	3,910
Cash and cash equivalents, ending		2,640	1,408	2,640	1,408

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

² The comparative period has been restated to reflect discontinued operations as discussed in Note 2.

Condor Petroleum Inc.

Consolidated Statements of Changes in Equity (Unaudited)

Stated in thousands of Canadian dollars

(except for number of common shares)

	Number of common shares	Share capital	Contributed surplus	Translation reserve	Deficit	Total equity
As at December 31, 2017	43,265,100	271,688	21,125	(70,267)	(167,390)	55,156
Common shares issued	900,000	243	-	-	-	243
Stock based compensation expense	-	-	329	-	-	329
Warrants	-	-	117	-	-	117
Foreign currency translation adjustment	-	-	-	(9,899)	-	(9,899)
Net loss	-	-	-	-	(10,534)	(10,534)
As at September 30, 2018	44,165,100	271,931	21,571	(80,166)	(177,924)	35,412
As at December 31, 2018	44,165,100	271,931	21,638	(77,223)	(181,460)	34,886
Stock based compensation expense	-	-	178	-	-	178
Foreign currency translation adjustment	-	-	-	(357)	-	(357)
Net loss	-	-	-	-	(4,785)	(4,785)
As at September 30, 2019	44,165,100	271,931	21,816	(77,580)	(186,245)	29,922

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

Condor Petroleum Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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 interim condensed consolidated financial statements (the "financial statements") of the Company as at September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on November 13, 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 September 30, 2019 the Company had accumulated losses of \$186.2 million since inception (December 31, 2018: \$181.5 million), a working capital deficiency of \$6.8 million, excluding assets and liabilities held for sale (December 31, 2018: deficiency of \$4.6 million) and reported a net loss for the nine months ended September 30, 2019 of \$4.8 million (2018: \$10.5 million).

As described in Note 2, on September 23, 2019, Condor's wholly owned subsidiary, Falcon Oil & Gas Ltd entered into a binding agreement to sell Falcon's 100% interests in the Shoba and Taskuduk production contracts and associated field equipment and should the sale not be completed as currently anticipated in the first quarter of 2020, the Company will require additional funding to fund operations and repay existing borrowings. In addition to the Shoba and Taskuduk disposal, the Company is currently pursuing other funding initiatives including renegotiating the terms of the existing borrowings and securing funding from additional debt or equity financing. 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.

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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 (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 ‘Interim Financial Reporting’. The financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

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 accounting policies used to prepare these financial statements are consistent with the policies at December 31, 2018 except for the adoption of IFRS 16 Leases (“IFRS 16”), assets and liabilities held for sale and discontinued operations. The impact of the adoption of IFRS 16 and the new accounting policy are disclosed in Note 16.

Accounting Policies: Assets and liabilities held for sale and discontinued operations

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

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

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

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

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

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. Pursuant to an appeal filed by the Ministry, the Kazakhstan Court of Appeal (“Court of Appeal”) ruled in May 2017 that the

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force majeure event was not recognized and reversed the decision of the Civil Court. 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 and the Company subsequently 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.

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

On September 23, 2019, Condor’s wholly owned subsidiary, Falcon Oil & Gas Ltd (“Falcon”) entered into a binding agreement to sell Falcon’s 100% interests in the Shoba production contract, Taskuduk production contract and associated field equipment for United States dollars (“USD”) 24.6 million (“Sale Agreement”). The Sale Agreement provides for the buyer (“Buyer”) to pay an initial deposit of USD 3.8 million (“Deposit”) within ten business days and the remaining USD 20.8 million (“Completion Payment”) is due upon closing the transaction (“Closing”). Falcon received USD 1.0 million of the Deposit in late September 2019 and the remaining USD 2.8 million in early October 2019.

The transaction requires various consents and confirmations from the Government of Kazakhstan and is subject to the satisfaction of certain commercial conditions that are customary for a transaction of this nature. Falcon is entitled to keep the Deposit if Closing fails unless the Sale Agreement is rightfully terminated by the Buyer due to a breach of the Sale Agreement by Falcon or the required consents from the Government of Kazakhstan are not received before September 22, 2020.

As the transaction is subject to Government of Kazakhstan approvals, the Company applied judgment in the application of its accounting policies in determining that the transaction met the held for sale criteria at September 30, 2019 and to estimate the Closing date.

Falcon shall remain the owner and operator of the oilfields until Closing occurs. At Closing, the Buyer will be entitled to reduce the Completion Payment by the amount of net revenues less costs generated from the production and sale of crude oil from the oilfields commencing sixty days following confirmation that the Buyer has paid the Deposit, provided a proof of funds letter demonstrating available funds to pay the Completion Payment and applied to the relevant authorities for the required Government of Kazakhstan consents. The sixty day period has not commenced as of the date of these financial statements.

The related Shoba and Taskuduk net assets and liabilities have been reclassified to assets and liabilities held for sale following the execution of the Sale Agreement and are comprised of the following:

As at (000's)	September 30, 2019	December 31, 2018
Property, plant and equipment (Note 4)	18,658	-
Other long term assets (Note 5)	66	-
Assets held for sale	18,724	-
Other long term liabilities (Note 7)	2,502	-
Provisions (Note 8)	698	-
Liabilities held for sale	3,200	-
Net assets and liabilities held for sale	15,524	-

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

For the period ended September 30	Three months 2019	Three months 2018	Nine months 2019	Nine months 2018
Revenue				
Crude oil sales	2,073	1,283	5,960	4,223
Royalties	(31)	(22)	(87)	(76)
Total revenue	2,042	1,261	5,873	4,147
Expenses				
Production costs	562	398	1,447	1,162
Transportation and selling	-	22	-	422
General and administrative	75	62	200	216
Depletion and depreciation	604	483	1,716	1,581
Total expenses	(1,241)	(965)	(3,363)	(3,381)
Finance income	34	1	34	2
Finance expense	(65)	(81)	(202)	(251)
Foreign exchange loss	(20)	(79)	-	(116)
Net income before tax	750	137	2,342	401
Deferred income tax expense	-	-	-	(3,451)
Net income (loss) from discontinued operations	750	137	2,342	(3,050)
Basic and diluted net income (loss) per share	0.02	0.01	0.05	(0.07)

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The following table presents the impact on the consolidated statement of comprehensive income (loss) for the year ended December 31, 2018 due to the reclassification of the Shoba and Taskuduk operations to discontinued operations:

For the year ended December 31, 2018	Continuing operations	Discontinued operations	Combined operations
Revenue			
Sales	11,675	5,820	17,495
Royalties	(1,407)	(103)	(1,510)
Total revenue	10,268	5,717	15,985
Expenses			
Production costs	1,491	1,614	3,105
Transportation and selling	615	422	1,037
General and administrative	6,104	307	6,411
Depletion, depreciation and impairment	8,070	2,129	10,199
Stock based compensation	396	-	396
Total expenses	(16,676)	(4,472)	(21,148)
Finance income	466	2	468
Finance expense	(2,638)	(334)	(2,972)
Foreign exchange gain (loss)	(3,078)	126	(2,952)
Net income (loss) before tax	(11,658)	1,039	(10,619)
Deferred income tax expense	-	(3,451)	(3,451)
Net loss	(11,658)	(2,412)	(14,070)
Basic and diluted net loss per share	(0.26)	(0.06)	(0.32)
Foreign currency translation adjustment	(6,956)	-	(6,956)
Comprehensive loss	(18,614)	(2,412)	(21,026)

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The following table presents the impact on the consolidated statement of comprehensive income (loss) for the year ended December 31, 2017 due to the reclassification of the Shoba and Taskuduk operations to discontinued operations:

For the year ended December 31, 2017	Continuing operations	Discontinued operations	Combined operations
Revenue			
Sales	340	5,312	5,652
Royalties	(44)	(124)	(168)
Total revenue	296	5,188	5,484
Expenses			
Production costs	40	1,660	1,700
Transportation and selling	14	579	593
General and administrative	7,654	387	8,041
Exploration and evaluation	58,184	-	58,184
Depletion and depreciation	352	2,490	2,842
Stock based compensation	114	-	114
Total expenses	(66,358)	(5,116)	(71,474)
Finance income	755	18	773
Finance expense	(3,168)	(363)	(3,531)
Foreign exchange loss	(1,277)	-	(1,277)
Net loss before tax	(69,752)	(273)	(70,025)
Deferred income tax recovery	-	3,357	3,357
Net income (loss)	(69,752)	3,084	(66,668)
Basic and diluted net income (loss) per share	(1.61)	0.07	(1.54)
Foreign currency translation adjustment	(4,792)	-	(4,792)
Comprehensive income (loss)	(74,544)	3,084	(71,460)

The following table presents the impact on the consolidated statements of cash flows for the years ended December 31, 2018 and 2017 due to the reclassification of the Shoba and Taskuduk operations to discontinued operations:

For the year ended December 31	2018	2017
Cash from (used in) continuing operations	3,638	(11,155)
Cash from discontinued operations	3,834	2,979
Cash from (used in) operating activities	7,472	(8,176)
Cash used in continuing investing activities	(3,331)	(21,025)
Cash from (used in) discontinued investing activities	118	(77)
Cash used in investing activities	(3,213)	(21,102)
Cash from (used in) continuing financing activities	(6,889)	12,403
Change in cash	(2,630)	(16,875)

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3. Other current assets:

As at (000's)	September 30, 2019	December 31, 2018
Current portion of VAT receivables (Note 5)	4,085	1,588
Bank deposits	344	357
Prepaid expenses	274	443
Supplies inventory	298	392
Crude oil inventory	72	157
	5,073	2,937

The bank deposits are denominated in USD and reserved for decommissioning obligations related to the Zharkamys Contract. Current portion of VAT receivables include \$3.5 million reclassified from other long term assets as of September 30, 2019 related to the Shoba and Taskuduk sale (Note 2).

4. Property, plant and equipment:

(000's)	Oil and gas properties	Other	Total
Cost			
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
Capital expenditures	1,739	2	1,741
Right-of-use lease assets (Note 16)	-	147	147
Change in decommissioning costs	108	-	108
Foreign currency translation adjustment	(3,704)	(63)	(3,767)
Reclassified as assets held for sale (Note 2)	(25,673)	-	(25,673)
As at September 30, 2019	29,558	1,761	31,319
Accumulated depletion, depreciation and impairment			
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)
Depletion and depreciation	(3,405)	(165)	(3,570)
Foreign currency translation adjustment	1,161	56	1,217
Reclassified as assets held for sale (Note 2)	7,015	-	7,015
As at September 30, 2019	(9,090)	(1,603)	(10,693)
Net book value			
As at December 31, 2018	43,227	181	43,408
As at September 30, 2019	20,468	158	20,626

Oil and gas properties comprise field equipment and capital inventory in Kazakhstan and the Poyraz Ridge and Destan gas fields in Turkey. Oil and gas properties include capital inventory of \$1.6 million (2018: \$3.6 million) which are not subject to depletion.

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5. Other long term assets:

As at (000's)	September 30, 2019	December 31, 2018
Non-current VAT receivables	1,396	4,362
Non-current bank deposits	2,078	2,215
	3,474	6,577

VAT receivables are available for offset against VAT collected on future domestic sales and available for refund related to future export sales. VAT receivables in Kazakhstan are discounted from the expected date of receipt using a discount rate of 8.2% (2018: 8.6%) which estimates the market rate of return on a similar instrument. The total undiscounted VAT receivables, including current portion (Note 3) and non-current portion, amounts to \$5.7 million as at September 30, 2019 (2018: \$6.5 million).

The non-current bank deposits consist of \$1.9 million denominated in USD and \$0.2 million denominated in TRL, are invested in special interest bearing accounts and are comprised of \$1.6 million reserved for decommissioning obligations in Kazakhstan and Turkey and \$0.5 million related to the Poyraz Ridge pipeline surface access expropriation in Turkey.

Following the execution of the Sale Agreement (Note 2), during the current period \$3.5 million of non-current VAT receivables were reclassified to current portion (Note 3) and \$0.66 million of non-current bank deposits for Shoba and Taskuduk decommissioning obligations were reclassified to liabilities held for sale (Note 2).

6. Long term borrowings:

As at September 30, 2019 the outstanding principal on the Company's secured non-revolving credit facility (the "Facility") amounted to USD 6.3 million comprising two payments of USD 0.9 million followed by three payments of USD 1.5 million with the final payment due September 30, 2020. The Facility bears interest at 14% with principal plus accrued interest payments due each quarter in arrears.

The Facility balance at September 30, 2019 includes the quarterly principal payment of USD 0.9 million and accrued interest of USD 0.2 million scheduled for payment on September 30, 2019. Prior to the scheduled payment date, the Facility lender provider a consent and waiver for the payment to be made on or before October 15, 2019. The principal and accrued interest was paid on October 1, 2019.

In conjunction with the Facility, the lender holds one million warrants exercisable into one million common shares at \$0.35 per share on or before December 31, 2021 (the "Warrants"). The fair value of the Warrants and the loan issuance costs are amortized over the term of the loan using the effective interest method.

The Company may voluntarily prepay the outstanding Facility principal amount in whole or in part at any time by paying a 1% fee of the amount prepaid. All net proceeds from any sale of the Company's properties shall be applied to repayment of the Facility with a fee equal to 2% of the amount prepaid. Closing of the Shoba sale (Note 2) and subsequent mandatory repayment of the outstanding Facility balance is estimated to be completed by March 31, 2020 and the corresponding portion of unamortized loan issuance and Warrant costs have been expensed in the current period ending September 30, 2019. The remaining unamortized amounts will be amortized over the remaining expected life of the Facility.

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 Facility contains no financial covenants and the Company is in compliance with all non-financial covenants.

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7. Other long term liabilities:

Other long term liabilities are the non-current portion of accounts payable related to capital expenditures in Kazakhstan of \$0.7 million (2018: nil). Prior period liabilities included the amounts to be reimbursed to the Government of Kazakhstan for historical costs which have been reclassified to liabilities held for sale in the current period (Note 2).

The historical costs of \$2.5 million, which include expenditures for drilling, seismic and other geological and geophysical works, 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 September 30, 2019 is \$3.3 million (2018: \$3.8 million), is non-interest bearing and comprises USD denominated liabilities of \$1.9 million and KZT denominated liabilities of \$1.4 million. The historical costs have been discounted to \$2.5 million (2018: \$2.8 million) based on the estimated timing of future payments and a weighted average 8% discount rate based on historical risk-free rates.

8. Provisions:

As at (000's)	September 30, 2019	December 31, 2018
Beginning non-current portion	2,775	2,756
Increase in liabilities	19	254
Reclassified from (to) current portion	-	447
Change in estimates	9	(423)
Accretion expense	206	228
Transferred to liabilities held for sale (Note 2)	(698)	-
Foreign currency translation adjustment	(201)	(487)
Ending non-current portion	2,110	2,775
Beginning current portion	357	1,019
Change in estimates	-	(156)
Reclassified from (to) non-current portion	-	(447)
Foreign currency translation adjustment	(13)	(59)
Ending current portion	344	357

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 September 30, 2019 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$3.2 million (December 31, 2018: \$4.2 million), which are expected to be incurred between 2020 and 2031.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 9.5% (December 31, 2018: 8.1%) and risk free discount rate of 12.75% (December 31, 2018: 11.2%).

9. 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 September 30, 2019 the number of common shares issued and outstanding is 44,165,100 (December 31, 2018: 44,165,100).

10. Income (loss) per share:

Per share amounts are calculated using a weighted average number of common shares of 44,165,100 for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018: 43,431,404 and 43,321,350, respectively). The outstanding stock options (Note 11) and Warrants (Note 6)

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have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

11. 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.

Details of the stock options outstanding as at September 30, 2019 are as follows:

Exercise price	Options outstanding		Options vested	
	Number	Average remaining life in years	Number	Average remaining life in years
\$0.22	491,500	4.5	168,835	4.4
\$0.59	1,672,000	3.4	1,128,005	3.4
\$1.33	725,000	1.5	725,000	1.5
\$1.50	948,000	1.2	948,000	1.3
\$1.60	335,000	0.5	335,000	0.5
	4,171,500	2.5	3,304,840	2.1

As of September 30, 2019, there are 4,171,500 stock options outstanding with a weighted average exercise price of \$0.94 (December 31, 2018: \$1.18). The 3,304,840 options exercisable at September 30, 2019 had a \$1.09 weighted average exercise price (December 31, 2018: \$1.42). In April, 2019, 506,500 stock options were granted and the fair value of \$0.11 per option was estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 1.6% risk free interest rate; a 78.5% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.20; and an exercise price of \$0.22.

12. Commitments and contingent liabilities:*Work commitments*

The Company's contractual work commitments for the next twelve months pursuant to the Shoba and Taskuduk production contracts in Kazakhstan are \$1.2 million. The Shoba and Taskuduk work commitments will be the responsibility of the Buyer upon the closing of the transaction discussed in Note 2. 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 (Note 1), the exploration period extension would carry estimated additional work commitments of \$3.9 million for the first twelve months of the extension period comprised mainly of drilling two exploration wells.

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

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

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

Credit risk on trade receivables is related mainly to natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. During the three and nine months ended September 30, 2019, sales of natural gas and related receivables in Turkey, and sales of condensate in Turkey were each sold to one respective customer and are therefore subject to concentration risk (three and nine months ended September 30, 2018: one respective customer). As at September 30, 2019, the one gas marketer in Turkey represented 100% of outstanding trade receivables (December 31, 2018: one gas marketer in Turkey represented 100%).

Credit risk is mitigated by management's policies and practices. In Kazakhstan, sales are generally made on a 100% pre-payment basis although the Company occasionally extends credit to proven and reliable off-takers on small volumes of crude oil, subject to the off-taker adhering to a strict pre-determined short term payment schedule. 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 September 30, 2019 and concluded that the amount is valid and collectible.

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

Liquidity risk and capital management

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations and commitments and repaying liabilities as they fall due. The Company requires liquidity mainly to satisfy financial obligations and operating requirements related to activities in Kazakhstan and Turkey, and for repayment of 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.

At September 30, 2019 the Company had accumulated losses of \$186.2 million since inception (December 31, 2018: \$181.5 million), a working capital deficiency of \$6.8 million, excluding assets and liabilities held for sale (December 31, 2018: deficiency of \$4.6 million) and reported a net loss for the nine months ended September 30, 2019 of \$4.8 million (2018: \$10.5 million). These conditions indicate a material uncertainty which lends significant doubt about the Company's ability to continue as a going concern (Note 1).

The Company's ability to meet obligations and repay liabilities as they come due is dependent upon the successful completion of the Shoba and Taskuduk sale, the ability to generate sufficient cash flows from operations, renegotiate the terms of the existing borrowings, secure funding from additional debt or equity financing, disposing of assets or make other arrangements. There is no assurance that the Company will be able to generate or access the necessary capital to fund its operations.

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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:

As at September 30, 2019 (000's)	< 1 year	1-3 years	4-5 years	> 5 years	Total
Accounts payable and accrued liabilities	4,314	-	-	-	4,314
Borrowings including interest until maturity	9,307	-	-	-	9,307
Lease liabilities	74	-	-	-	74
Other long term liabilities	-	746	-	-	746

As at December 31, 2018 (000's)					
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

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 nine months ended September 30, 2019 and 2018.

During the nine months ended September 30, 2019, the CAD appreciated from 1.36 per 1.00 USD to 1.32, the KZT depreciated from 384.20 per 1.00 USD to 387.63, and TRL depreciated from 5.26 per 1.00 USD to 5.66, which led to a foreign exchange loss of \$1.5 million (2018: loss of \$4.2 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 nine months ended September 30, 2019, the KZT depreciated from 282 per 1.00 CAD to 292 and TRL depreciated from 3.86 per 1.00 CAD to 4.26 resulting in a \$0.4 million foreign currency translation adjustment loss (2018: loss of \$9.9 million).

Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. As indicated in Note 6, 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.

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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 nine months ended September 30, 2019 and 2018.

14. Supplementary cash flow information:

The Company received interest income of \$0.04 million for the nine months ended September 30, 2019 (2018: \$0.04 million) and did not pay any income tax in 2019 or 2018.

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

<u>Long term borrowings (000's)</u>	
As at December 31, 2017	13,083
Repayment of borrowings	(3,397)
Interest paid on borrowings	(2,872)
Non-cash movements	1,886
<u>As at September 30, 2018</u>	<u>8,700</u>
As at December 31, 2018	9,177
Repayment of borrowings	(1,314)
Interest paid on borrowings	(663)
Non-cash movements	1,290
<u>As at September 30, 2019</u>	<u>8,490</u>

15. Segmented information:

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

<u>(000's)</u>	<u>Corporate</u>	<u>Kazakhstan</u>	<u>Turkey</u>	<u>Total</u>
<u>As at September 30, 2019</u>				
Property, plant and equipment	79	1,219	19,328	20,626
Total assets	2,366	27,077	21,453	50,896
Total liabilities	9,567	9,352	2,055	20,974
<u>As at December 31, 2018</u>				
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

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(000's)	Corporate	Kazakhstan	Turkey	Total
<u>For the three months ended September 30, 2019</u>				
Property, plant and equipment expenditures	-	2	106	108
Revenue				
Natural gas sales	-	-	1,033	1,033
Condensate sales	-	-	64	64
Royalties	-	-	(140)	(140)
Total revenue	-	-	957	957
Expenses				
Production costs	-	-	326	326
Transportation and selling	-	-	96	96
General and administrative	1,155	276	211	1,642
Depletion and depreciation	91	9	381	481
Stock based compensation	29	-	-	29
Finance income	(134)	-	-	(134)
Finance expense	717	-	-	717
Foreign exchange loss	733	-	-	733
Net loss from continuing operations	(2,591)	(285)	(57)	(2,933)
Net income from discontinued operations	-	750	-	750
Net income (loss)	(2,591)	465	(57)	(2,183)
<u>For the three months ended September 30, 2018</u>				
Property, plant and equipment expenditures	-	2	342	344
Revenue				
Natural gas sales	-	-	2,166	2,166
Condensate sales	-	-	-	-
Royalties	-	-	(262)	(262)
Total revenue	-	-	1,904	1,904
Expenses				
Production costs	-	-	368	368
Transportation and selling	-	-	102	102
General and administrative	826	224	335	1,385
Depletion and depreciation	4	12	668	684
Stock based compensation	85	-	-	85
Finance income	(94)	-	-	(94)
Finance expense	916	-	-	916
Foreign exchange loss	3,112	-	-	3,112
Net income (loss) from continuing operations	(4,849)	(236)	431	(4,654)
Net income from discontinued operations	-	137	-	137
Net income (loss)	(4,849)	(99)	431	(4,517)

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(000's)	Corporate	Kazakhstan	Turkey	Total
For the nine months ended September 30, 2019				
Property, plant and equipment expenditures	-	2	216	218
Revenue				
Natural gas sales	-	-	4,111	4,111
Condensate sales	-	-	163	163
Royalties	-	-	(531)	(531)
Total revenue	-	-	3,743	3,743
Expenses				
Production costs	-	-	870	870
Transportation and selling	-	-	368	368
General and administrative	3,049	851	658	4,558
Depletion and depreciation	217	28	1,641	1,886
Stock based compensation	178	-	-	178
Finance income	(336)	-	-	(336)
Finance expense	1,831	-	-	1,831
Foreign exchange loss	1,515	-	-	1,515
Net income (loss) from continuing operations	(6,454)	(879)	206	(7,127)
Net income from discontinued operations	-	2,342	-	2,342
Net income (loss)	(6,454)	1,463	206	(4,785)
For the nine months ended September 30, 2018				
Property, plant and equipment expenditures	-	2	2,069	2,071
Revenue				
Natural gas sales	-	-	8,716	8,716
Condensate sales	-	-	265	265
Royalties	-	-	(1,081)	(1,081)
Total revenue	-	-	7,900	7,900
Expenses				
Production costs	-	-	1,195	1,195
Transportation and selling	-	-	413	413
General and administrative	2,664	912	1,000	4,576
Depletion and depreciation	11	34	2,929	2,974
Stock based compensation	329	-	-	329
Finance income	(384)	-	-	(384)
Finance expense	2,109	-	-	2,109
Foreign exchange loss	4,172	-	-	4,172
Net income (loss) from continuing operations	(8,901)	(946)	2,363	(7,484)
Net income from discontinued operations	-	(3,050)	-	(3,050)
Net income (loss)	(8,901)	(3,996)	2,363	(10,534)

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16. Adoption of IFRS 16 and related accounting policies:

This note explains the impact of the adoption of IFRS 16, Leases (“IFRS 16”) on the financial statements and presents the new accounting policies applied from January 1, 2019 where they are different to those applied in prior periods.

The Company adopted IFRS 16 retrospectively from January 1, 2019 and comparatives for the 2018 reporting period have not been restated as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet as of January 1, 2019.

(a) Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17, Leases. The lease liabilities were measured at the present value of the remaining lease payments and discounted at the Company’s incremental borrowing rate of 14% as at January 1, 2019.

Right-of-use leased assets were measured at the amount of the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(000’s)	
Operating lease commitments as at December 31, 2018	161
Discounted using incremental borrowing rate at date of initial application	147
Lease liabilities recognised as at January 1, 2019	147

The recognized right-of-use assets relate to the following types of assets:

As at (000’s)	September 30, 2019	January 1, 2019
Properties	67	142
Equipment	2	5
Total right-of-use assets	69	147

Finance expense for the nine months ended September 30, 2019 includes \$0.01 million of accrued interest expense related to lease liabilities.

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- Right-of-use assets (classified in property, plant and equipment) increased by \$0.15 million
- Lease liabilities increased by \$0.15 million

Practical expedients applied

In applying IFRS 16 for the first time the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

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- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(b) Accounting policies applied from January 1, 2019

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, qualifying leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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