CONDOR ENERGIES INC

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited)

Condor Energies Inc.
Consolidated Statements of Financial Position (Unaudited)
Stated in thousands of Canadian dollars

As at	Note	**March 31, 2023**	**December 31, 2022**
Assets			
Cash and cash equivalents		2,165	3,751
Trade and other receivables		304	353
Other current assets	2	317	300
Total current assets		2,786	4,404
Exploration and evaluation assets	3	3,597	3,302
Property, plant and equipment	4	1,919	1,939
Other long term assets	5	415	417
Total assets		8,717	10,062
Liabilities			
Accounts payable and accrued liabilities		1,099	1,626
Current portion of lease liabilities		93	93
Current portion of provisions	6	304	295
Total current liabilities		1,496	2,014
Lease liabilities		76	99
Provisions	6	1,649	1,652
Total liabilities		3,221	3,765
Equity			
Share capital	7	276,543	276,543
Contributed surplus		21,797	21,686
Accumulated other comprehensive loss		(84,004)	(83,930)
Deficit		(208,840)	(208,002)
Total equity		5,496	6,297
Total liabilities and equity		8,717	10,062

Going concern (Note 1).

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

Condor Energies Inc.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
Stated in thousands of Canadian dollars
(except for per share amounts)

For the three months ended March 31	Note	2023	2022
Revenue			
Natural gas and condensate sales	14	411	260
Royalties		(59)	(34)
Total revenue		352	226
Expenses			
Production costs		238	151
Transportation and selling		10	26
General and administrative		1,144	1,268
Depletion and depreciation	4	225	132
Stock based compensation	9	111	35
Total expenses		(1,728)	(1,612)
Finance income		28	2
Finance expense		(20)	(39)
Foreign exchange gain	12	4	38
Net monetary gain	10	526	-
Net loss		(838)	(1,385)
Items that may be reclassified to profit or loss:			
Foreign currency translation adjustment		(74)	(149)
Comprehensive loss		(912)	(1,534)
Net loss per share			
Basic and diluted net loss per share	8	(0.01)	(0.03)

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

Condor Energies Inc.

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

For the three months ended March 31	Note	2023	2022
Operating activities:			
Net loss		(838)	(1,385)
Items not affecting cash:			
Depletion and depreciation	4	225	132
Stock based compensation	9	111	35
Finance expenses		13	39
Unrealized foreign exchange gain		(8)	(43)
Net monetary gain	10	(523)	-
Changes in non-cash working capital		(527)	(23)
Cash used in operating activities		(1,547)	(1,245)
Investing activities:			
Property, plant and equipment expenditures	4	(9)	-
Cash used in investing activities		(9)	-
Financing activities:			
Lease payments		(22)	-
Cash used in financing activities		(22)	-
Change in cash		(1,578)	(1,245)
Effect of foreign exchange on cash		(8)	(44)
Cash and cash equivalents, beginning		3,751	4,623
Cash and cash equivalents, ending		2,165	3,334

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

Condor Energies 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	Accumulated Other Comprehensive Loss	Deficit	Total equity
As at December 31, 2021	45,198,434	273,191	21,350	(84,580)	(204,938)	5,023
Stock based compensation expense	-	-	35	-	-	35
Foreign currency translation adjustment	-	-	-	(149)	-	(149)
Net loss	-	-	-	-	(1,385)	(1,385)
As at March 31, 2022	45,198,434	273,191	21,385	(84,729)	(206,323)	3,524
As at December 31, 2022	56,164,453	276,543	21,686	(83,930)	(208,002)	6,297
Stock based compensation expense	-		111	-	-	111
Foreign currency translation adjustment	-	-	-	(74)	-	(74)
Net loss	-	-	-	-	(838)	(838)
As at March 31, 2023	56,164,453	276,543	21,797	(84,004)	(208,840)	5,496

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

1. Corporate information:

Reporting entity:

Condor Energies Inc. ("Condor" or the "Company") is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "CDR" with activities in the Republic of Turkiye ("Turkiye") and the Republic of Kazakhstan ("Kazakhstan"). The address of the Company's registered office is 1000, 521 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 3T3.

The interim condensed consolidated financial statements (the "financial statements") of the Company as at March 31, 2023 and for the three months ended March 31, 2023 and 2022 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on May 11, 2023 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 Turkiye. The Poyraz Ridge and Destan operating licenses are both valid until June 8, 2023 and may be extended upon approval by the competent authority in Turkiye until 2035.

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. At March 31, 2023, the Company had accumulated losses of $208.8 million since inception (December 31, 2022: $208.0 million). For the three months ended March 31, 2023, the Company reported a net loss of $0.8 million (March 31, 2022: $1.4 million) and cash used in operating activities of $1.5 million (March 31, 2022: $1.2 million). The Company's working capital balance has decreased from $2.4 million as at December 31, 2022 to $1.3 million as at March 31, 2023.

The Company's ability to continue as a going concern is dependent upon its existing working capital being sufficient to sustain operating activities while the Company attempts to generate positive cash flows from operations, secure funding from debt or equity financings, dispose of assets or make other arrangements. While the Company was successful in raising additional equity in December 2022 of $3.7 million, there is no assurance the Company will be able to generate positive cash flow from operations or to secure funding from debt or additional equity financings, dispose of assets or complete other arrangements on favourable terms, or at all, which may require the utilization of all remaining working capital and financial resources.

These conditions indicate a material uncertainty that may cast 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.

Basis of presentation

These financial statements have been prepared in accordance with 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, 2022.

The financial statements are reported in Canadian dollars ("CAD") which is the functional currency of the Company. The Company's subsidiary in Kazakhstan has a Kazakhstan Tenge ("KZT") functional currency. One of the Company's subsidiaries in the Netherlands which has a branch in Turkey ("Turkey Branch") has a Turkish Lira ("TRY") functional currency.

The accounting policies used to prepare these financial statements are consistent with the policies at December 31, 2022, other than the adoption of the amendments to *IAS 1 "Presentation of Financial Statements"* in relation to the classification of liabilities as either current or non-current, which had no impact on the Company's financial statements.

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 and 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 periods 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: reserve estimates, determination of Cash Generating Units ("CGUs"), identification of impairment indicators, impairment, exploration and evaluation expenditures, decommissioning obligations, stock based compensation, income taxes, and going concern.

2. Other current assets:

As at (000's)	**March 31, 2023**	**December 31, 2022**
Prepaid expenses	202	189
Inventory	86	84
Value added tax receivables	29	27
	317	300

3. Exploration and evaluation assets:

As at (000's)	**March 31, 2023**	**December 31, 2022**
Opening balance	3,302	2,238
Change in decommissioning costs	1	21
Impact of hyperinflation (Note 10)	335	1,590
Foreign currency translation adjustment	(41)	(547)
Closing balance	3,597	3,302

Exploration and evaluation assets as of March 31, 2023 comprise the Yakamoz prospect within the Poyraz Ridge operating license in Turkiye which was drilled in 2021. There were no impairment indicators for the exploration and evaluation assets as of March 31, 2023.

4. Property, plant and equipment:

(000's)	Oil and gas properties	Other equipment	Total
Cost			
As at December 31, 2021	13,237	1,715	14,952
Capital expenditures	1,785	207	1,992
Transfers	100	(100)	-
Change in decommissioning costs	5	-	5
Property, plant and equipment sales	(209)	(1)	(210)
Impact of hyperinflation	142	-	142
Foreign currency translation adjustment	(1,076)	(21)	(1,097)
As at December 31, 2022	13,984	1,800	15,784
Capital expenditures	2	7	9
Change in decommissioning costs	1	-	1
Impact of hyperinflation	214	-	214
Foreign currency translation adjustment	(114)	39	(75)
As at March 31, 2023	14,087	1,846	15,933
Accumulated depletion, depreciation and impairment			
As at December 31, 2021	(13,237)	(1,112)	(14,349)
Depletion and depreciation	(620)	(55)	(675)
Transfers	(51)	51	-
Property, plant and equipment sales	206	1	207
Impact of hyperinflation	(24)	-	(24)
Foreign currency translation adjustment	956	40	996
As at December 31, 2022	(12,770)	(1,075)	(13,845)
Depletion and depreciation	(165)	(37)	(202)
Impact of hyperinflation	(30)	-	(30)
Foreign currency translation adjustment	85	(22)	63
As at March 31, 2023	(12,880)	(1,134)	(14,014)
Net book value			
As at December 31, 2022	1,214	725	1,939
As at March 31, 2023	1,207	712	1,919

In 2021, an impairment was recorded in the Poyraz Ridge and Destan CGU. Thereafter, movements in the related decommissioning obligations are recognized as depletion and depreciation expense and amounted to $0.02 million for the three months ended March 31, 2023 (2022: $0.2 million) resulting in total depletion and depreciation expense of $0.22 million for the three months ended March 31, 2023 (2022: $0.9 million).

There were no indicators of impairment or impairment reversal as at March 31, 2023.

Other equipment includes field equipment and capital inventory of $0.5 million (2022: $0.5 million) which are not subject to depletion.

5. Other long term assets:

Other long term assets are comprised of non-current bank deposits of $0.4 million as of March 31, 2023 (December 31, 2022: $0.4 million) and are substantially all denominated in USD and invested in special interest bearing accounts comprised of $0.2 million (December 31, 2022: $0.2 million) for decommissioning obligations in Kazakhstan, Turkiye, and Canada and $0.2 million (December 31, 2022: $0.2 million) related to the Poyraz Ridge pipeline surface access expropriation in Turkiye.

6. Provisions:

As at (000's)	**March 31, 2023**	**December 31, 2022**
Beginning non-current portion	1,652	1,568
Increase in liabilities	-	80
Change in estimates	24	255
Accretion expense	13	182
Foreign currency translation adjustment	(40)	(433)
Ending non-current portion	1,649	1,652
Beginning current portion	295	409
Settlements	-	(116)
Change in estimates	-	6
Foreign currency translation adjustment	9	(4)
Ending current portion	304	295

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 March 31, 2023, the estimated total uninflated and undiscounted cash flows required to settle the current and non-current liabilities are $2.0 million (December 31, 2022: $2.0 million), which are expected to be incurred between 2023 and 2026.

The net present value of the decommissioning obligations is calculated with an inflation rate of 2.6% (December 31, 2022: 2.6%) and risk-free discount rate of 3.6% (December 31, 2022: 3.6%).

7. 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 March 31, 2023 the number of common shares issued is 56,164,453 (December 31, 2022: 56,164,453).

As of March 31, 2023, there are 325,980 warrants ("Warrants") exercisable into an equal number of common shares of Condor at $0.38 per share on or before December 14, 2024.

8. Net loss per share:

Per share amounts are calculated using a weighted average number of common shares of 56,164,453 for the three months ended March 31, 2023 (2022: 45,198,434 shares). For periods with a net loss, outstanding stock options and Warrants have been excluded from the respective calculations of diluted weighted average common shares as to include them would be anti-dilutive.

9. 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 March 31, 2023 are as follows:

	Options outstanding		Options vested	
Exercise price	Number	Average remaining life in years	Number	Average remaining life in years
$0.22	372,000	1.0	372,000	1.0
$0.31	1,000,000	5.0	333,334	5.0
$0.33	100,000	1.5	100,000	1.5
$0.39	1,150,000	4.7	383,336	4.7
$0.42	120,000	4.0	40,000	4.0
$0.48	700,000	3.7	466,672	3.7
$0.51	225,000	2.6	150,001	2.6
$0.53	655,000	2.4	655,000	2.4
$0.59	1,042,000	0.0	1,042,000	0.0
	5,364,000	3.0	3,542,343	2.2

As of March 31, 2023, there are 5,364,000 stock options outstanding with a weighted average exercise price of $0.44 (December 31, 2022: $0.47). The 3,542,343 options exercisable at March 31, 2023 had a $0.46 weighted average exercise price (December 31, 2022: $0.48).

10. Net monetary gain

To measure the impact of inflation on its financial position and results, the Company has elected to use the Turkish consumer price index (“Turkish CPI”) as published by the Turkish Statistical Institute “TURKSTAT”. The value of the Turkish CPI at March 31, 2023 was 1,270 and the movement in the Turkish CPI for the three months ended March 31, 2023 was 141, an increase of approximately 13%. As a result, the Company recognized a net monetary gain of $0.5 million for the three months ended March 31, 2023 to restate transactions into a measuring unit current as of March 31, 2023.

11. Commitments and contingent liabilities:

Income taxes

The Dutch Tax Authority (“DTA”) has issued notices of assessment to New Horizon Energy Netherlands B.V. (“New Horizon”), a wholly owned Company subsidiary based in the Netherlands amounting to 11.0 million Euros (equivalent to $16.2 million using March 31, 2023 exchange rate) related to taxation years 2013–2017, including accrued interest. The assessments seek to disallow interest expense deductions related to inter-company loans New Horizon received from Condor and the majority of which were onward loaned to Falcon on a back-to-back basis to fund activities in Kazakhstan. New Horizon has filed respective objections for all disputed years. In the first quarter of 2023, the DTA advised that the Company’s tax position for all disputed years will be accepted, and the matter will be resolved with no taxes and no interest charged or payable.

Work commitments

There are no work commitments related to the Poyraz Ridge operating license, the Yakamoz prospect or the Destan operating license in Turkiye.

Going concern

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

12. Financial risk management:

Credit risk

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

The 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 months ended March 31, 2023 and 2022, sales of natural gas and related receivables were sold to one single customer and therefore is subject to concentration risk. As at March 31, 2023, the single gas marketer represented 94% of outstanding trade receivables (December 31, 2022: 85%).

Credit risk is mitigated by management's policies and practices. For gas sales, 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 March 31, 2023 and concluded that the amount is valid and collectible.

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 Turkiye. 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 March 31, 2023, the Company had accumulated losses of $208.8 million since inception (December 31, 2022: $208.0 million). For the three months ended March 31, 2023, the Company reported net loss of $0.8 million (2022: $1.4 million) and cash used in operating activities of $1.5 million (2022: $1.2 million). The Company's working capital balance has decreased from $2.4 million as at December 31, 2022 to $1.3 million as at March 31, 2023. These conditions indicate a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern (Note 1).

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)	Less than 1 year	Greater than 1 year	Total
As at March 31, 2023			
Accounts payable and accrued liabilities	1,099	-	1,099
Lease liabilities	93	76	169
As at December 31, 2022			
Accounts payable and accrued liabilities	1,626	-	1,626
Lease liabilities	93	99	192

Market risk

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

Foreign currency exchange risk

The Company is exposed to significant foreign currency risk as the Company's natural gas sales and a substantial portion of foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRL, and a significant portion of the Company's cash and cash equivalents is held in USD. The Company had no forward exchange rate contracts in place at or during the three months ended March 31, 2023 and 2022.

During the three months ended March 31, 2023, the CAD remained consistent at 1.35 per 1.00 USD, the KZT appreciated from 462.7 per 1.00 USD to 448.1, and TRL depreciated from 18.7 per 1.00 USD to 19.1, which led to a foreign exchange gain of less than $0.01 million (2022: gain of $0.04 million) related mainly to USD denominated cash and cash equivalents held by the Company.

During the three months ended March 31, 2023, the KZT appreciated from 342 per 1.00 CAD to 331, and the TRL depreciated from 13.7 per 1.00 CAD to 14.1, resulting in a $0.1 million translation loss adjustment through equity (2022: loss of $0.4 million).

Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. The Company does not have any debt as at March 31, 2023 and therefore 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 oil 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 as at or during the three months ended March 31, 2023 or 2022.

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

Fair Value of Financial Assets and Liabilities

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods outlined below. The Company's fair value measurements are classified as one of the following levels of the fair value hierarchy. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability:

Level 1 – Inputs represent unadjusted quoted prices in active markets for identical assets and liabilities as of the reporting date. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forward prices for commodities.

Level 3 – Inputs for the asset or liability are not based on observable market data.

The fair value of the Company's cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities balances approximate their carrying value at March 31, 2023 and December 31, 2022, due to their short term to maturity.

13. Supplementary cash flow information:

The Company received interest income of $0.03 million for the three months ended March 31, 2023 (2022: $0.002 million) and did not pay any income tax in 2023 or 2022.

14. Segmented information:

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

(000's)	Corporate	Kazakhstan	Turkiye	Total
As at March 31, 2023				
Exploration and evaluation assets	-	-	3,597	3,597
Property, plant and equipment	184	514	1,221	1,919
Total assets	2,056	995	5,666	8,717
Total liabilities	588	982	1,651	3,221
As at December 31, 2022				
Exploration and evaluation assets	-	-	3,302	3,302
Property, plant and equipment	218	500	1,221	1,939
Total assets	3,946	646	5,470	10,062
Total liabilities	839	1,269	1,657	3,765

Segmented information (000's)	**Corporate**	**Kazakhstan**	**Turkiye**	**Total**
For the three months ended March 31, 2023				
Revenue				
Natural gas sales	-	-	396	396
Condensate sales	-	-	15	15
Royalties	-	-	(59)	(59)
Total revenue	-	-	352	352
Expenses				
Production costs	-	-	238	238
Transportation and selling	-	-	10	10
General and administrative	803	188	153	1,144
Depletion and depreciation	34	2	189	225
Stock based compensation	111	-	-	111
Finance income	(28)	-	-	(28)
Finance expense	20	-	-	20
Foreign exchange gain	(4)	-	-	(4)
Net monetary gain	-	-	(526)	(526)
Net income (loss)	(936)	(190)	288	(838)
For the three months ended March 31, 2022				
Revenue				
Natural gas sales	-	-	260	260
Royalties	-	-	(34)	(34)
Total revenue	-	-	226	226
Expenses				
Production costs	-	-	151	151
Transportation and selling	-	-	26	26
General and administrative	919	151	198	1,268
Depletion and depreciation	10	6	116	132
Stock based compensation	35	-	-	35
Finance income	(2)	-	-	(2)
Finance expense	39	-	-	39
Foreign exchange gain	(38)	-	-	(38)
Net loss	(963)	(157)	(265)	(1,385)