



Interim Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017
(Unaudited)

Condor Petroleum Inc.

Consolidated Statements of Financial Position (Unaudited)

Stated in thousands of Canadian dollars

As at		June 30, 2018	December 31, 2017
	Note		
Assets			
Cash and cash equivalents		869	3,910
Trade and other receivables		1,734	976
Other current assets	2	4,735	5,440
Total current assets		7,338	10,326
Property, plant and equipment	3	51,941	57,690
Deferred tax assets	11	-	3,357
Other long term assets	4	5,836	6,257
Total assets		65,115	77,630
Liabilities			
Accounts payable and accrued liabilities		2,989	2,608
Current portion of long term borrowings	5	6,584	7,958
Current portion of other long term liabilities	6	479	461
Current portion of provisions	7	827	1,019
Total current liabilities		10,879	12,046
Long term borrowings	5	2,417	5,125
Other long term liabilities	6	2,526	2,547
Provisions	7	3,371	2,756
Total liabilities		19,193	22,474
Equity			
Share capital	8	271,688	271,688
Contributed surplus		21,369	21,125
Translation reserve		(73,728)	(70,267)
Deficit		(173,407)	(167,390)
Total equity		45,922	55,156
Total liabilities and equity		65,115	77,630

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 June 30	Note	Three months 2018	Three months 2017	Six months 2018	Six months 2017
Revenue					
Crude oil and natural gas sales		4,803	1,405	9,755	2,352
Royalties		(415)	(32)	(873)	(61)
Total revenue		4,388	1,373	8,882	2,291
Expenses					
Production costs		827	431	1,591	779
Transportation and selling		401	217	711	217
General and administrative		1,750	1,983	3,345	4,478
Exploration and evaluation	1	-	1,336	-	57,951
Depletion and depreciation		1,637	713	3,388	1,314
Stock based compensation		225	72	244	366
Total expenses		(4,840)	(4,752)	(9,279)	(65,105)
Finance income		129	390	291	494
Finance expense		(655)	(786)	(1,363)	(1,252)
Foreign exchange loss		(785)	(330)	(1,097)	(440)
Net loss, before tax		(1,763)	(4,105)	(2,566)	(64,012)
Deferred income tax expense	11	(3,451)	-	(3,451)	-
Net loss		(5,214)	(4,105)	(6,017)	(64,012)
Foreign currency translation adjustment		(4,927)	(526)	(3,461)	215
Comprehensive loss		(10,141)	(4,631)	(9,478)	(63,797)
Basic and diluted net loss per share	9	(0.12)	(0.10)	(0.14)	(1.48)

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

Condor Petroleum Inc.

Consolidated Statements of Cash Flows (Unaudited)

Stated in thousands of Canadian dollars

For the period ended June 30		Three months 2018	Three months 2017	Six months 2018	Six months 2017
	Note				
Operating activities:					
Net loss		(5,214)	(4,105)	(6,017)	(64,012)
Items not affecting cash:					
Depletion and depreciation		1,637	713	3,388	1,314
Exploration and evaluation	1	-	-	-	56,615
Deferred income tax expense	11	3,451	-	3,451	-
Stock based compensation		225	72	244	366
Finance income		(118)	(341)	(256)	(373)
Finance expenses		655	788	1,363	1,254
Unrealized foreign exchange loss		878	338	1,189	599
Cash from (used in) operating activities before changes in non-cash working capital		1,514	(2,535)	3,362	(4,237)
Changes in non-cash working capital		212	89	419	(442)
Cash from (used in) operating activities		1,726	(2,446)	3,781	(4,679)
Investing activities:					
Property, plant and equipment expenditures	3	(1,507)	(6,265)	(1,757)	(14,563)
Changes in non-cash working capital		963	571	636	(9)
Cash used in investing activities		(544)	(5,694)	(1,121)	(14,572)
Financing activities					
Net proceeds from borrowings	14	-	-	-	12,403
Repayment of borrowings	14	(1,646)	-	(3,258)	-
Interest paid	14	(402)	-	(2,524)	-
Cash from (used in) financing activities		(2,048)	-	(5,782)	12,403
Change in cash		(866)	(8,140)	(3,122)	(6,848)
Effect of foreign exchange on cash		(7)	(198)	81	(392)
Cash and cash equivalents, beginning		1,742	22,629	3,910	21,531
Cash and cash equivalents, ending		869	14,291	869	14,291

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

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
As at December 31, 2016	43,265,100	271,688	20,229	(65,475)	(100,722)	125,720
Stock based compensation expense	-	-	366	-	-	366
Warrants issued (Note 5)	-	-	782	-	-	782
Foreign currency translation adjustment	-	-	-	215	-	215
Net loss	-	-	-	-	(64,012)	(64,012)
As at June 30, 2017	43,265,100	271,688	21,377	(65,260)	(164,734)	63,071
As at December 31, 2017	43,265,100	271,688	21,125	(70,267)	(167,390)	55,156
Stock based compensation expense	-	-	244	-	-	244
Foreign currency translation adjustment	-	-	-	(3,461)	-	(3,461)
Net loss	-	-	-	-	(6,017)	(6,017)
As at June 30, 2018	43,265,100	271,688	21,369	(73,728)	(173,407)	45,922

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

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 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 June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on August 14, 2018 by the Board of Directors.

Nature of operations

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

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

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, 2017, 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.

For the three and six months ended June 30, 2017, the Company reclassified royalty expense to royalties for presentation purposes within the statement of comprehensive income (loss).

The accounting policies used to prepare these financial statements are consistent with the policies at December 31, 2017 except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Company:

A number of new or amended standards became applicable for the current reporting period and the Company has changed its accounting policies as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

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The impact of the adoption of these standards and the new accounting policies are disclosed in Note 16.

New standards and interpretations not yet adopted:

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

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 June 30, 2018 the Company had accumulated losses of \$173.4 million since inception (December 31, 2017: \$167.4 million), a working capital deficit of \$3.5 million (December 31, 2017: deficit of \$1.7 million) and reported a net loss for the six months ended June 30, 2018 of \$6.0 million (six month ended June 30, 2017: \$64.0 million). In addition, the Company's estimates of future cash flows from operating activities may not provide the necessary capital for repayment of the loan principal and interest as they become due.

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 indicate a material uncertainty that may cast significant doubt regarding the Company's ability to continue as 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 drilling two to four wells at the Shoba field with very favorable payment terms, performing one to two workovers at the Taskuduk field, completing the recently drilled well and performing several other workovers at the Poyraz Ridge field. The Company has also requested the lender consider restructuring the loan repayment terms on the existing borrowings and the proposal is under consideration. There is no assurance that the Company will be successful with these initiatives and the outcome of these matters is uncertain.

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Zharkamys exploration contract extension:

The Company's Zharkamys exploration contract ("Zharkamys Contract") with the Ministry of Energy of the Government of Kazakhstan ("Ministry") was due to expire on December 14, 2016. Prior to this date, the Kazakhstan Chamber of International Commerce and subsequently the Kazakhstan Civil Court ("Civil Court") confirmed that a force majeure event had occurred which, under Kazakhstan subsurface use law, can be the basis for the Zharkamys Contract validity period to be extended for a period of 630 days. In May 2017, the Kazakhstan Court of Appeal ("Court of Appeal"), pursuant to an appeal filed by the Ministry, 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 has up to six months to appeal the case back to the Supreme Court.

2. Other current assets:

As at (000's)	June 30, 2018	December 31, 2017
Current portion of VAT receivables (Note 4)	2,769	3,415
Bank deposits	1,073	1,194
Prepaid expenses	461	452
Supplies inventory	304	269
Crude oil inventory	128	110
	4,735	5,440

The bank deposits are denominated in USD and include \$0.6 million reserved for decommissioning obligations related to the Zharkamys Contract and \$0.5 million related to the Poyraz Ridge pipeline surface access expropriation in Turkey.

3. Property, plant and equipment:

(000's)	Oil and gas properties	Other equipment	Total
Cost			
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	1,755	2	1,757
Change in decommissioning costs	558	-	558
Foreign currency translation adjustment	(4,653)	47	(4,606)
As at June 30, 2018	59,273	1,752	61,025

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(000's)	Oil and gas properties	Other equipment	Total
Accumulated depletion and depreciation			
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	(3,350)	(27)	(3,377)
Foreign currency translation adjustment	(39)	(42)	(81)
As at June 30, 2018	(7,471)	(1,613)	(9,084)
Net book value			
As at December 31, 2017	57,531	159	57,690
As at June 30, 2018	51,802	139	51,941

Oil and gas properties comprise the Shoba and Taskuduk oilfields in Kazakhstan and the Poyraz Ridge and Destan operating licenses in Turkey. Oil and gas properties includes capital inventory and work in progress of \$3.3 million (2017: \$3.4 million) which are not depleted.

4. Other long term assets:

As at (000's)	June 30, 2018	December 31, 2017
Non-current VAT receivables	4,418	4,874
Non-current bank deposits	1,418	1,383
	5,836	6,257

Undiscounted VAT receivables (including non-current and current portion) of \$7.9 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 8.7% (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 2). The non-current bank deposits, which are comprised of \$1.1 million denominated in USD and \$0.3 million denominated in TRY, are invested in special interest bearing accounts and the funds are reserved for decommissioning obligations.

5. Long term borrowings:

In January 2017, the Company established a USD 10.0 million secured non-revolving credit facility (the "Credit Facility") and on February 1, 2017 (the "Receiving Date") received the loan proceeds equivalent to \$13.1 million from the arm's length lender. The Credit Facility bears interest at 14% and matures three years from the Receiving Date. Interest for the first year was due and paid on January 31, 2018 and regular loan repayments commenced on March 31, 2018. As at June 30, 2018, the Company had six loan payments of USD 1.25 million of principal plus interest due quarterly in arrears with the next payment due September 30, 2018.

The Credit Facility is secured by customary security including a general security agreement of all present and future assets of Condor and a movable assets pledge agreement establishing a first-ranking pledge over the commercial enterprise, any or all assets and any gas sales receivables of the Turkey Branch. In conjunction with the Credit Facility, the lender received a warrant certificate exercisable into one million

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common shares of Condor at \$2.35 per share on or before January 31, 2020 (the “Warrants”) and the fair value of the Warrants are amortized over the term of the loan using the effective interest method. The Credit Facility contains no financial covenants and the Company is in compliance with all non-financial covenants.

The Company may voluntarily prepay the outstanding Credit Facility principal amount in whole or in part at any time by paying a 2% fee of the amount of principal prepaid from February 1, 2018 to January 31, 2019 and a 1% fee of the amount of principal prepaid from February 1, 2019 to January 31, 2020.

6. 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 June 30, 2018 is \$4.1 million (2017: \$4.2 million), is non-interest bearing and comprises USD denominated liabilities of \$2.2 million and KZT denominated liabilities of \$1.9 million. Excluding the current portion of \$0.5 million (2017: \$0.5 million), the non-current portion of historical costs has been discounted to \$2.5 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.

7. Provisions:

As at (000's)	June 30, 2018	December 31, 2017
Beginning non-current portion	2,756	3,972
Increase in liabilities	131	356
Reclassified from (to) current portion	219	(758)
Change in estimates	381	(719)
Accretion expense	101	311
Foreign currency translation adjustment	(217)	(406)
Ending non-current portion	3,371	2,756
Beginning current portion	1,019	264
Reclassified from (to) non-current portion	(219)	758
Change in estimates	45	-
Foreign currency translation adjustment	(18)	(3)
Ending current portion	827	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 June 30, 2018 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$5.0 million (December 31, 2017: \$4.7 million), which are expected to be incurred between 2018 and 2031.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 5.3% (December 31, 2017: 5.2%) and weighted average discount risk free rate associated with the assets of 7.4% (December 31, 2017: 7.4%).

8. 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 June 30, 2018 the number of common shares issued is 43,265,100 (December 31, 2017: 43,265,100).

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2018

9. Income (loss) per share:

Per share amounts are calculated using a weighted average number of common shares of 43,265,100 for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017: 43,265,100). Outstanding stock options (Note 10) and the outstanding Warrants (Note 5) have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

10. 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 June 30, 2018 are as follows:

Exercise price	Options outstanding		Options vested	
	Number	Average remaining life in years	Number	Average remaining life in years
\$0.59	1,872,000	4.8	624,003	4.8
\$1.33	905,000	2.6	905,000	2.6
\$1.50	948,000	2.2	868,000	2.1
\$1.60	362,500	1.8	362,500	1.8
\$3.00	30,000	0.9	30,000	0.9
\$3.40	203,500	0.8	203,500	0.8
	4,321,000	3.3	2,993,003	2.7

As at June 30, 2018, there are 4,321,000 stock options outstanding with a weighted average exercise price of \$1.18 (December 31, 2017: \$2.31). The 2,993,003 options exercisable at June 30, 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 1.89% 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.

11. Income taxes:

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. 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. Accordingly, the deferred tax assets have been derecognized and a deferred income tax expense of \$3.5 million has been recognized in the three month ended June 30, 2018.

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12. Commitments and contingent liabilities:

The Company's contractual work commitments as at June 30, 2018 are as follows:

(000's)	< 1 year	1-3 years	4-5 years	> 5 years	Total
Shoba	4,719	4,679	1,320	2,478	13,196
Taskuduk	995	71	57	125	1,248

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

There are no work commitments related to the Poyraz Ridge or Destan operating licenses in Turkey. Related to Destan, the Government of Turkey has notified the Company to commence production activities by September 17, 2018 or the Destan operating license could be revoked.

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

Operating leases

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

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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 mainly related to crude oil and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Sales of crude oil and related receivables in Kazakhstan are with one customer and sales of natural gas and related receivables in Turkey are with one customer, and are therefore subject to concentration risk. This risk is mitigated by management's policies and practices related to credit risk. In Turkey, the Company holds a bank guarantee provided by the buyer of its natural gas amounting to two month's estimated gas sales as security on gas sales receivables. The Company has examined its accounts receivable and concluded that the amount shown as accounts receivable is valid and collectible.

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

Liquidity risk and capital management

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations and commitments and repaying liabilities as they fall due. The Company requires liquidity mainly to satisfy financial obligations and operating requirements related to activities in Kazakhstan and Turkey. 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 June 30, 2018 the Company had accumulated losses of \$173.4 million since inception (December 31, 2017: \$167.4 million), a working capital deficit of \$3.5 million (December 31, 2017: deficit of \$1.7 million) and reported a net loss for the six months ended June 30, 2018 of \$6.0 million (six month ended June 30, 2017: \$64.0 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 drilling two to four wells at the Shoba field with very favorable payment terms, performing one to two workovers at the Taskuduk field, completing the recently drilled well and performing several other workovers at the Poyraz Ridge field. The Company has also requested the lender consider restructuring the loan repayment terms on the existing borrowings and the proposal is under consideration. 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.

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Market risk

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

Foreign currency exchange risk

The Company is exposed to significant foreign currency risk as a substantial portion of the Company's foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRY, and the Company's borrowings are denominated in USD. The Company had no forward exchange rate contracts in place at or during the six months ended June 30, 2018 and 2017.

During the six months ended June 30, 2018, the CAD depreciated from 1.25 per 1.00 USD to 1.32, which led to a foreign exchange loss of \$1.1 million (2017: loss of \$0.4 million) related mainly to USD denominated borrowings.

During the six months ended June 30, 2018, the KZT appreciated from 265 per 1.00 CAD to 258 and TRY depreciated from 3.02 per 1.00 CAD to 3.48 resulting in a \$3.5 million translation loss adjustment through equity (2017: gain of \$0.2 million).

Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. As indicated in Note 5, the interest rate on borrowings is fixed. Therefore, the Company has no current exposure to changes in interest rates, except for interest rates on cash and cash equivalents.

Commodity price risk

The Company is exposed to changes in commodity prices inherent in the oil and natural gas industry. Commodity prices for petroleum and natural gas are impacted by economic events and factors which are beyond the Company's control. Fluctuations in petroleum and natural gas prices may have a significant effect on the Company's results of operations and cash flows from operating activities and, subsequently, may also affect the value of the oil and gas properties and the level of spending for exploration and development. The majority of the Company's production is sold under short-term contracts, which exposes the Company to the risk of price movements. The Company had no forward price contracts or derivatives in place at or during the six months ended June 30, 2018 or 2017.

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14. Supplementary cash flow information:

The Company received interest income of \$0.04 million for the six months ended June 30, 2018 (2017: \$0.1 million) and did not pay income tax in 2018 or 2017.

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

Long term borrowings (000's)	
As at December 31, 2016	-
Loan proceeds	13,089
Loan issuance costs	(686)
Net proceeds from borrowings	12,403
Non-cash movements	169
As at June 30, 2017	12,572
As at December 31, 2017	13,083
Loan repayment	(3,258)
Interest paid	(2,524)
Non-cash movements	1,700
As at June 30, 2018	9,001

15. Segmented information:

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

(000's)	Corporate	Kazakhstan	Turkey	Total
As at June 30, 2018				
Property, plant and equipment	15	20,116	31,810	51,941
Total assets	735	28,520	35,860	65,115
Total liabilities	9,987	5,542	3,664	19,193
As at December 31, 2017				
Property, plant and equipment	23	20,653	37,014	57,690
Total assets	3,804	32,567	41,259	77,630
Total liabilities	13,981	5,358	3,135	22,474

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(000's)	Corporate	Kazakhstan	Turkey	Total
For the three months ended June 30, 2018				
Property, plant and equipment expenditures	-	26	1,481	1,507
Revenue				
Crude oil sales	-	1,596	-	1,596
Natural gas sales	-	-	2,942	2,942
Condensate sales	-	-	265	265
Royalties	-	(29)	(386)	(415)
Total revenue	-	1,567	2,821	4,388
Expenses				
Production costs	-	407	420	827
Transportation and selling	-	233	168	401
General and administrative	945	452	353	1,750
Depletion and depreciation	3	602	1,032	1,637
Stock based compensation	225	-	-	225
Finance income	(129)	-	-	(129)
Finance expense	655	-	-	655
Foreign exchange loss	785	-	-	785
Net income (loss), before tax	(2,484)	(127)	848	(1,763)
Deferred income tax expense	-	(3,451)	-	(3,451)
Net income (loss)	(2,484)	(3,578)	848	(5,214)
For the three months ended June 30, 2017				
Property, plant and equipment expenditures	6	-	6,259	6,265
Revenue				
Crude oil sales	-	1,405	-	1,405
Royalty expense	-	(32)	-	(32)
Total revenue	-	1,373	-	1,373
Expenses				
Production costs	-	431	-	431
Transportation and selling	-	217	-	217
General and administrative	665	392	926	1,983
Exploration and evaluation	-	-	1,336	1,336
Depletion and depreciation	3	694	16	713
Stock based compensation	72	-	-	72
Finance income	(390)	-	-	(390)
Finance expense	786	-	-	786
Foreign exchange loss	330	-	-	330
Net loss	(1,466)	(361)	(2,278)	(4,105)

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(000's)	Corporate	Kazakhstan	Turkey	Total
For the six months ended June 30, 2018				
Property, plant and equipment expenditures	-	30	1,727	1,757
Revenue				
Crude oil sales	-	2,940	-	2,940
Natural gas sales	-	-	6,550	6,550
Condensate sales	-	-	265	265
Royalties	-	(54)	(819)	(873)
Total revenue	-	2,886	5,996	8,882
Expenses				
Production costs	-	764	827	1,591
Transportation and selling	-	400	311	711
General and administrative	1,838	842	665	3,345
Depletion and depreciation	7	1,120	2,261	3,388
Stock based compensation	244	-	-	244
Finance income	(291)	-	-	(291)
Finance expense	1,363	-	-	1,363
Foreign exchange loss	1,097	-	-	1,097
Net income (loss), before tax	(4,258)	(240)	1,932	(2,566)
Deferred income tax expense	-	(3,451)	-	(3,451)
Net income (loss)	(4,258)	(3,691)	1,932	(6,017)
For the six months ended June 30, 2017				
Property, plant and equipment expenditures	6	-	14,557	14,563
Revenue				
Crude oil sales	-	2,352	-	2,352
Royalties	-	(61)	-	(61)
Total revenue	-	2,291	-	2,291
Expenses				
Production costs	-	779	-	779
Transportation and selling	-	217	-	217
General and administrative	2,057	860	1,561	4,478
Exploration and evaluation	-	56,615	1,336	57,951
Depletion and depreciation	6	1,278	30	1,314
Stock based compensation	366	-	-	366
Finance income	(494)	-	-	(494)
Finance expense	1,252	-	-	1,252
Foreign exchange loss	440	-	-	440
Net loss	(3,627)	(57,458)	(2,927)	(64,012)

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16. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

(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 retained earnings as at January 1, 2018.

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 June 30, 2018, 63% 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 June 30, 2018.

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

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(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 retained earnings as of January 1, 2018.

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

(c) Accounting policies applied from January 1, 2018**Financial instruments***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.

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.

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.

Revenue recognition

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.

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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.