



**Interim Condensed Consolidated Financial Statements**

**For the three months ended March 31, 2019 and 2018**

**(Unaudited)**

**Condor Petroleum Inc.**

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

<b>As at</b>		<b>March 31, 2019</b>	<b>December 31, 2018</b>
	Note		
<b>Assets</b>			
Cash and cash equivalents		1,781	1,690
Trade and other receivables		796	843
Other current assets	2	2,718	2,937
<b>Total current assets</b>		<b>5,295</b>	<b>5,470</b>
Property, plant and equipment	3	41,159	43,408
Other long term assets	4	6,342	6,577
<b>Total assets</b>		<b>52,796</b>	<b>55,455</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		4,216	5,181
Lease liabilities	15	124	-
Current portion of long term borrowings	5	5,612	3,820
Current portion of other long term liabilities	6	463	469
Current portion of provisions	7	356	357
Deferred revenue		146	292
<b>Total current liabilities</b>		<b>10,917</b>	<b>10,119</b>
Long term borrowings	5	3,392	5,357
Other long term liabilities	6	2,411	2,318
Provisions	7	2,813	2,775
<b>Total liabilities</b>		<b>19,533</b>	<b>20,569</b>
<b>Equity</b>			
Share capital	8	271,931	271,931
Contributed surplus		21,703	21,638
Translation reserve		(77,680)	(77,223)
Deficit		(182,691)	(181,460)
<b>Total equity</b>		<b>33,263</b>	<b>34,886</b>
<b>Total liabilities and equity</b>		<b>52,796</b>	<b>55,455</b>

Going concern (Note 1)

Commitments and contingent liabilities (Note 11)

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)

<b>For the three months ended March 31</b>		<b>2019</b>	<b>2018</b>
	Note		
<b>Revenue</b>			
Crude oil and natural gas sales	12, 14	3,692	4,952
Royalties		(256)	(458)
<b>Total revenue</b>		<b>3,436</b>	<b>4,494</b>
<b>Expenses</b>			
Production costs		704	764
Transportation and selling		141	310
General and administrative		1,472	1,595
Depletion and depreciation	3	1,232	1,751
Stock based compensation	10	65	19
<b>Total expenses</b>		<b>(3,614)</b>	<b>(4,439)</b>
Finance income		103	162
Finance expense		(624)	(708)
Foreign exchange loss	12	(532)	(312)
<b>Net loss</b>		<b>(1,231)</b>	<b>(803)</b>
<b>Basic and diluted net loss per share</b>	9	<b>(0.03)</b>	<b>(0.02)</b>
Foreign currency translation adjustment		(457)	1,466
<b>Comprehensive income (loss)</b>		<b>(1,688)</b>	<b>663</b>

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

<b>For the three months ended March 31</b>		<b>2019</b>	<b>2018</b>
	Note		
<b>Operating activities:</b>			
Net loss		(1,231)	(803)
Items not affecting cash:			
Depletion and depreciation		1,232	1,751
Stock based compensation		65	19
Finance income		(91)	(138)
Finance expense		624	708
Unrealized foreign exchange loss		567	311
Cash from operating activities before changes in non-cash working capital		1,166	1,848
Changes in non-cash working capital		347	207
Cash from operating activities		1,513	2,055
<b>Investing activities:</b>			
Property, plant and equipment expenditures	3	(34)	(250)
Changes in non-cash working capital		(871)	(327)
Cash used in investing activities		(905)	(577)
<b>Financing activities:</b>			
Repayment of borrowings	13	(134)	(1,612)
Interest paid on borrowings	13	(333)	(2,122)
Lease payments	15	(27)	-
Cash used in financing activities		(494)	(3,734)
Change in cash		114	(2,256)
Effect of foreign exchange on cash		(23)	88
Cash and cash equivalents, beginning		1,690	3,910
Cash and cash equivalents, ending		1,781	1,742

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)

	<b>Number of common shares</b>	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Translation reserve</b>	<b>Deficit</b>	<b>Total equity</b>
As at December 31, 2017	43,265,100	271,688	21,125	(70,267)	(167,390)	55,156
Stock based compensation expense	-	-	19	-	-	19
Foreign currency translation adjustment	-	-	-	1,466	-	1,466
Net loss	-	-	-	-	(803)	(803)
<b>As at March 31, 2018</b>	<b>43,265,100</b>	<b>271,688</b>	<b>21,144</b>	<b>(68,801)</b>	<b>(168,193)</b>	<b>55,838</b>
As at December 31, 2018	44,165,100	271,931	21,638	(77,223)	(181,460)	34,886
Stock based compensation expense	-	-	65	-	-	65
Foreign currency translation adjustment	-	-	-	(457)	-	(457)
Net loss	-	-	-	-	(1,231)	(1,231)
<b>As at March 31, 2019</b>	<b>44,165,100</b>	<b>271,931</b>	<b>21,703</b>	<b>(77,680)</b>	<b>(182,691)</b>	<b>33,263</b>

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 months ended March 31, 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 March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and 2018 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on May 14, 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 March 31, 2019 the Company had accumulated losses of \$182.7 million since inception (December 31, 2018: \$181.5 million), a working capital deficiency of \$5.6 million (December 31, 2018: deficiency of \$4.6 million) and reported a net loss for the three months ended March 31, 2019 of \$1.2 million (2018: \$0.8 million).

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

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

**Condor Petroleum Inc.**

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

*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”). The impact of the adoption of IFRS 16 and the new accounting policy are disclosed in Note 15.

*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 did not appeal to the Supreme Court within the six months permitted by Kazakhstan law. The Company has submitted an application to the Ministry and is in the process of preparing and seeking approvals for the various development projects required for the 630 day extension.

**2. Other current assets:**

As at (000’s)	March 31, 2019	December 31, 2018
Current portion of VAT receivables (Note 4)	1,487	1,588
Bank deposits	356	357
Prepaid expenses	374	443
Supplies inventory	339	392
Crude oil inventory	162	157
	2,718	2,937

The bank deposits are denominated in United States Dollars (“USD”) and reserved for decommissioning obligations related to the Zharkamys Contract.

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

(000's)	<b>Oil and gas properties</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>			
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	34	-	34
Right-of-use lease assets (Note 15)	-	147	147
Change in decommissioning costs	125	-	125
Foreign currency translation adjustment	(2,150)	(6)	(2,156)
As at March 31, 2019	55,097	1,816	56,913
<b>Accumulated depletion and depreciation</b>			
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	(1,219)	(39)	(1,258)
Foreign currency translation adjustment	854	5	859
As at March 31, 2019	(14,226)	(1,528)	(15,754)
<b>Net book value</b>			
As at December 31, 2018	43,227	181	43,408
As at March 31, 2019	40,871	288	41,159

Oil and gas properties comprise the Shoba and Taskuduk oilfields in Kazakhstan and the Poyraz Ridge and Destan gas fields in Turkey. Oil and gas properties include capital inventory and work in progress of \$3.4 million (2018: \$3.6 million) which are not subject to depletion.

**4. Other long term assets:**

As at (000's)	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Non-current VAT receivables	4,175	4,362
Non-current bank deposits	2,167	2,215
	6,342	6,577

Undiscounted VAT receivables (including non-current and current portion) of \$6.2 million (2018: \$6.5 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 8.4% (2018: 8.6%), which estimates the market rate of return on a similar instrument.

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



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surface access expropriation in Turkey.

**5. Long term borrowings:**

As at March 31, 2019 the Company has USD 7.2 million outstanding on its secured non-revolving credit facility (the "Facility"). The Facility bears interest at 14% and principal plus accrued interest payments are due each quarter in arrears. The remaining principal payments consist of three payments of USD 0.9 million followed by three payments of USD 1.5 million with the final payment due September 30, 2020.

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.

The Facility is secured by customary security including a general security agreement over all present and future assets of Condor and a movable assets pledge agreement establishing a first-ranking pledge over the commercial enterprise, any or all assets and any gas sales receivables of the Turkey Branch. The Credit Facility contains no financial covenants and the Company is in compliance with all non-financial covenants.

**6. Other long term liabilities:**

Other long term liabilities are comprised of the amounts to be reimbursed to the Government of Kazakhstan for historical costs of \$2.2 million and the non-current portion of accounts payable related to capital expenditures in Kazakhstan of \$0.2 million.

The historical costs, 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 March 31, 2019 is \$3.6 million (2018: \$3.8 million), is non-interest bearing and comprises USD denominated liabilities of \$2.0 million and KZT denominated liabilities of \$1.6 million. Excluding the current portion of \$0.5 million (2018: \$0.5 million), the non-current portion of historical costs has been discounted to \$2.2 million (2018: \$2.3 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)	March 31, 2019	December 31, 2018
Beginning non-current portion	2,775	2,756
Increase in liabilities	-	254
Reclassified from (to) current portion	-	447
Change in estimates	125	(423)
Accretion expense	66	228
Foreign currency translation adjustment	(153)	(487)
Ending non-current portion	2,813	2,775
Beginning current portion	357	1,019
Change in estimates	-	(156)
Reclassified from (to) non-current portion	-	(447)
Foreign currency translation adjustment	(1)	(59)
Ending current portion	356	357

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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, 2019 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$4.1 million (December 31, 2018: \$4.2 million), which are expected to be incurred between 2019 and 2031.

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

**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 March 31, 2019 the number of common shares issued is 44,165,100 (December 31, 2018: 44,165,100).

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

Per share amounts are calculated using a weighted average number of common shares of 44,165,100 for the three months ended March 31, 2019 (2018: 43,265,100 shares). The outstanding stock options (Note 10) and 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 March 31, 2019 are as follows:

Exercise price	Options outstanding		Options vested	
	Number	Average remaining life in years	Number	Average remaining life in years
\$0.59	1,712,000	4.0	584,003	4.0
\$1.33	785,000	1.9	785,000	1.9
\$1.50	948,000	1.6	868,000	1.5
\$1.60	342,500	1.0	342,500	1.0
\$3.00	30,000	0.2	30,000	0.2
\$3.40	188,500	0.1	188,500	0.1
	4,006,000	2.6	2,798,003	2.0

As of March 31, 2019, there are 4,006,000 stock options outstanding with a weighted average exercise price of \$1.19 (December 31, 2018: \$1.18). The 2,798,003 options exercisable at March 31, 2019 had a \$1.42 weighted average exercise price (December 31, 2018: \$1.42).

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**11. Commitments and contingent liabilities:**

The Company's contractual work commitments for the next twelve months pursuant to the Shoba and Taskuduk production contracts in Kazakhstan equals \$4.2 million. These work commitments may be amended from time to time in accordance with planned development activities proposed by the Company and approved by the Government of Kazakhstan and additional amounts could be significant. Non-fulfillment of work commitments for Shoba or Taskuduk could result in punitive actions including the suspension or revocation of the respective contract in the event that financial work commitment fulfillment is less than thirty percent for two consecutive years. Financial work commitment shortfalls for development activities at Shoba and Taskuduk are not subject to penalties, while shortfalls on the training, social development and scientific research components may be subject to penalties of one percent of the shortfall.

If the Zharkamys exploration contract is reinstated (Note 1), any exploration period extension would carry additional work commitments, which could be significant.

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

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

*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.

**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 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 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. During the three months ended March 31, 2019, sales of crude oil in Kazakhstan, 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 months ended March 31, 2018: one respective customer). In 2019, crude oil accounted for \$1.8 million or 49% of total sales (2018: \$1.3 million or 27%), natural gas accounted for \$1.8 million or 48% of total sales (2018: \$3.6 million or 73%) and condensate accounted for \$0.1 million or 3% of total sales (2018: nil). As at March 31, 2019, the one customer in Turkey represented 86% of outstanding trade receivables (December 31, 2018: one customer in Turkey represented 100%).

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Credit risk is mitigated by management's policies and practices. In Kazakhstan, currently all sales are made with 100% prepayment. In Turkey, the Company holds a bank guarantee provided by the buyer of its natural gas amounting to two month's estimated gas sales as security on gas sales receivables. The Company has examined its accounts receivable as at March 31, 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 long term borrowings. The Company has the ability to adjust its capital structure by issuing new equity or debt, disposing of assets and making adjustments to its capital expenditure program to the extent the capital expenditures are not committed. On September 13, 2018 certain terms of the long term borrowings were amended (Note 5).

At March 31, 2019 the Company had accumulated losses of \$182.7 million since inception (December 31, 2018: \$181.5 million), a working capital deficiency of \$5.6 million (December 31, 2018: deficiency of \$4.6 million) and reported a net loss for the three months ended March 31, 2019 of \$1.2 million (2018: \$0.8 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 current development plan is aimed at increasing near term production and cash from operating activities and consists of re-completing one of the recently drilled wells and performing several workovers in Kazakhstan and performing several workovers in Turkey. There is no assurance that the Company will be successful with these initiatives and the outcome of these matters is uncertain.

To manage capital and operating spending, budgets are prepared, monitored regularly and updated as required. The Company also utilizes authorizations for expenditures to manage capital spending.

The cash flows presented in the tables below are the contractual undiscounted cash flows and accordingly certain amounts differ from the amounts included in the statement of financial position. The Company's undiscounted contractual obligations are as follows:

(000's)	< 1 year	1-3 years	4-5 years	> 5 years	Total
<u>As at March 31, 2019</u>					
Accounts payable and accrued liabilities	4,216	-	-	-	4,216
Borrowings including interest until maturity	6,715	4,220	-	-	10,935
Lease liabilities	124	-	-	-	124
Other long term liabilities (undiscounted)	484	1,143	846	1,341	3,814
<u>As at December 31, 2018</u>					
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

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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 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 three months ended March 31, 2019 and 2018.

During the three months ended March 31, 2019, the CAD appreciated from 1.36 per 1.00 USD to 1.34, the KZT appreciated from 384.20 per 1.00 USD to 380.04, and TRL depreciated from 5.26 per 1.00 USD to 5.63, which led to a foreign exchange loss of \$0.5 million (2018: loss of \$0.3 million) related mainly to a portion of USD denominated inter-company loans that are not considered part of the net investment in foreign operations.

During the three months ended March 31, 2019, the KZT depreciated from 282 per 1.00 CAD to 283 and TRL depreciated from 3.86 per 1.00 CAD to 4.19 resulting in a \$0.5 million translation loss adjustment through equity (2018: gain of \$1.5 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 and therefore the Company has no current exposure to changes in interest rates except for interest rates on cash and cash equivalents.

*Commodity price risk*

The Company is exposed to changes in commodity prices inherent in the oil and natural gas industry. Commodity prices for petroleum and natural gas are impacted by economic events and factors which are beyond the Company's control. Fluctuations in petroleum and natural gas prices may have a significant effect on the Company's results of operations and cash flows from operating activities and, subsequently, may also affect the value of the oil and gas properties and the level of spending for exploration and development. The majority of the Company's production is sold under short-term contracts, which exposes the Company to the risk of price movements. The Company had no forward price contracts or derivatives in place at or during the three months ended March 31, 2019 and 2018.

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**13. Supplementary cash flow information:**

The Company received interest income of \$0.01 million for the three months ended March 31, 2019 (2018: \$0.02 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
Loan repayment	(1,612)
Interest paid	(2,122)
Non-cash movements	922
<u>As at March 31, 2018</u>	<u>10,271</u>
As at December 31, 2018	9,177
Repayment of borrowings	(134)
Interest paid on borrowings	(333)
Non-cash movements	294
<u>As at March 31, 2019</u>	<u>9,004</u>

**14. 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>
<b><u>As at March 31, 2019</u></b>				
Property, plant and equipment	136	20,196	20,827	41,159
Total assets	928	28,193	23,675	52,796
Total liabilities	9,923	7,373	2,237	19,533
<b><u>As at December 31, 2018</u></b>				
Property, plant and equipment	18	20,389	23,001	43,408
Total assets	964	28,459	26,032	55,455
Total liabilities	10,038	8,322	2,209	20,569

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(000's)	Corporate	Kazakhstan	Turkey	Total
<b><u>For the three months ended March 31, 2019</u></b>				
Property, plant and equipment expenditures	-	-	34	34
<b>Revenue</b>				
Crude oil sales	-	1,811	-	1,811
Natural gas sales	-	-	1,782	1,782
Condensate sales	-	-	99	99
Royalties	-	(26)	(230)	(256)
<b>Total revenue</b>	-	1,785	1,651	3,436
<b>Expenses</b>				
Production costs	-	420	284	704
Transportation and selling	-	-	141	141
General and administrative	866	362	244	1,472
Depletion and depreciation	29	523	680	1,232
Stock based compensation	65	-	-	65
Finance income	(103)	-	-	(103)
Finance expense	624	-	-	624
Foreign exchange loss	532	-	-	532
<b>Net income (loss)</b>	<b>(2,013)</b>	<b>480</b>	<b>302</b>	<b>(1,231)</b>
<b><u>For the three months ended March 31, 2018</u></b>				
Property, plant and equipment expenditures	-	4	246	250
<b>Revenue</b>				
Crude oil sales	-	1,344	-	1,344
Natural gas sales	-	-	3,608	3,608
Royalties	-	(25)	(433)	(458)
<b>Total revenue</b>	-	1,319	3,175	4,494
<b>Expenses</b>				
Production costs	-	357	407	764
Transportation and selling	-	167	143	310
General and administrative	893	390	312	1,595
Depletion and depreciation	4	518	1,229	1,751
Stock based compensation	19	-	-	19
Finance income	(162)	-	-	(162)
Finance expense	708	-	-	708
Foreign exchange loss	312	-	-	312
<b>Net income (loss)</b>	<b>(1,774)</b>	<b>(113)</b>	<b>1,084</b>	<b>(803)</b>

**15. Changes in accounting policies:**

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

The Company has 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 disclosed as at December 31, 2018	161
Discounted using the lessee’s incremental borrowing rate at the date of initial application	147
<b>Lease liability recognised as at January 1, 2019</b>	<b>147</b>

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

As at (000’s)	March 31, 2019	January 1, 2019
Properties	117	142
Equipment	4	5
<b>Total right-of-use assets</b>	<b>121</b>	<b>147</b>

During the three months ended March 31, 2019, the Company accrued interest expense related to lease liabilities of \$0.01 million and presented it as finance expense.

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) – increase by \$0.15 million
- Lease liabilities – increase 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



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- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- 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, 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.