



Consolidated Financial Statements

For the years ended December 31, 2019 and 2018



Independent auditor's report

To the Shareholders of Condor Petroleum Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Condor Petroleum Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Calgary, Alberta
March 18, 2020

Condor Petroleum Inc.Consolidated Statements of Financial Position
Stated in thousands of Canadian dollars

As at		December 31, 2019	December 31, 2018
	Note		
Assets			
Cash and cash equivalents	5	2,935	1,690
Trade and other receivables		334	843
Other current assets	6	4,830	2,937
		8,099	5,470
Assets held for sale	4	18,743	-
Total current assets		26,842	5,470
Property, plant and equipment	7	15,033	43,408
Other long term assets	8	3,610	6,577
Total assets		45,485	55,455
Liabilities			
Accounts payable and accrued liabilities		4,714	5,181
Lease liabilities	3	47	-
Current portion of long term borrowings	9	6,846	3,820
Current portion of other long term liabilities	10	-	469
Current portion of provisions	11	345	357
Deferred revenue		119	292
Deposit for assets held for sale	4	5,124	-
		17,195	10,119
Liabilities held for sale	4	3,140	-
Total current liabilities		20,335	10,119
Long term borrowings	9	-	5,357
Other long term liabilities	10	-	2,318
Provisions	11	2,397	2,775
Total liabilities		22,732	20,569
Equity			
Share capital	12	271,931	271,931
Contributed surplus		21,849	21,638
Translation reserve		(79,467)	(77,223)
Deficit		(191,560)	(181,460)
Total equity		22,753	34,886
Total liabilities and equity		45,485	55,455

Commitments and contingent liabilities (Note 18)

Events occurring after the reporting period (Note 23)

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

Condor Petroleum Inc.

Consolidated Statements of Comprehensive Income (Loss)

Stated in thousands of Canadian dollars

(except for per share amounts)

For the year ended December 31		2019	2018¹
	Note		
Revenue			
Natural gas and condensate sales	21	5,169	11,675
Royalties		(647)	(1,407)
Total revenue		4,522	10,268
Expenses			
Production costs		1,225	1,491
Transportation and selling		445	615
General and administrative		7,054	6,104
Depletion, depreciation and impairment	7	6,810	8,070
Stock based compensation	14	211	396
Total expenses		(15,745)	(16,676)
Finance income	16	379	466
Finance expense	16	(2,434)	(2,638)
Foreign exchange loss	19	(592)	(3,078)
Net loss from continuing operations		(13,870)	(11,658)
Net income (loss) from discontinued operations	4, 22	3,770	(2,412)
Net loss		(10,100)	(14,070)
Foreign currency translation adjustment		(2,244)	(6,956)
Comprehensive loss		(12,344)	(21,026)
Basic and diluted net income (loss) per share			
Net loss from continuing operations		(0.31)	(0.26)
Net income (loss) from discontinued operations		0.08	(0.06)
Net loss		(0.23)	(0.32)

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

¹ The comparative period has been restated to reflect discontinued operations as discussed in Note 4.

Condor Petroleum Inc.

Consolidated Statements of Cash Flows

Stated in thousands of Canadian dollars

For the year ended December 31	Note	2019	2018²
Operating activities:			
Net loss from continuing operations		(13,870)	(11,658)
Items not affecting cash:			
Depletion, depreciation and impairment		6,810	8,070
Stock based compensation		211	396
Finance income		(313)	(406)
Finance expenses	16	2,277	2,638
Unrealized foreign exchange loss		462	2,824
Loss on disposal of property, plant & equipment		56	88
Cash from (used in) operating activities before changes in non-cash working capital		(4,367)	1,952
Changes in non-cash working capital		797	1,686
Cash from (used in) continuing operations		(3,570)	3,638
Cash from discontinued operations		5,663	3,834
Cash from operating activities		2,093	7,472
Investing activities:			
Property, plant and equipment expenditures	7	(152)	(2,004)
Proceeds from the sale of property, plant and equipment		320	102
Changes in non-cash working capital		(37)	(1,429)
Cash from (used in) continuing investing activities		131	(3,331)
Deposit for assets held for sale	4	5,118	-
Cash from (used) in discontinued investing activities		(2,204)	118
Cash from (used in) investing activities		3,045	(3,213)
Financing activities			
Repayment of borrowings	20	(2,637)	(3,666)
Interest paid on borrowings	20	(1,212)	(3,223)
Lease payments		(113)	-
Cash used in continuing financing activities		(3,962)	(6,889)
Change in cash		1,176	(2,630)
Effect of foreign exchange on cash		69	410
Cash and cash equivalents, beginning	5	1,690	3,910
Cash and cash equivalents, ending	5	2,935	1,690

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

² The comparative period has been restated to reflect discontinued operations as discussed in Note 4.

Condor Petroleum Inc.

Consolidated Statements of Changes in Equity

Stated in thousands of Canadian dollars

(except for number of common shares)

	Number of common shares	Share capital	Contributed surplus	Translation reserve	Deficit	Total equity
As at December 31, 2017	43,265,100	271,688	21,125	(70,267)	(167,390)	55,156
Common shares issued	900,000	243	-	-	-	243
Stock based compensation expense	-	-	396	-	-	396
Warrants issued	-	-	117	-	-	117
Foreign currency translation adjustment	-	-	-	(6,956)	-	(6,956)
Net loss	-	-	-	-	(14,070)	(14,070)
As at December 31, 2018	44,165,100	271,931	21,638	(77,223)	(181,460)	34,886
Stock based compensation expense	-	-	211	-	-	211
Foreign currency translation adjustment	-	-	-	(2,244)	-	(2,244)
Net loss	-	-	-	-	(10,100)	(10,100)
As at December 31, 2019	44,165,100	271,931	21,849	(79,467)	(191,560)	22,753

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

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Notes to the Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

1. Corporate information:

Reporting entity:

Condor Petroleum Inc. ("Condor" or the "Company") is a publicly traded company, listed on the Toronto Stock Exchange ("TSX") under the symbol "CPI", with activities in the Republic of Turkey ("Turkey") and the Republic of Kazakhstan ("Kazakhstan"). The address of the Company's registered office is 2400, 144 – 4th Ave SW, Calgary, Alberta, Canada, T2P 3N4.

The consolidated financial statements ("financial statements") of the Company as at and for the years ended December 31, 2019 and 2018 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on March 18, 2020 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.

On September 23, 2019, the Company's wholly owned subsidiary, Falcon Oil & Gas Ltd ("Falcon") entered into a binding agreement to sell Falcon's 100% interests in the Shoba production contract, Taskuduk production contract and associated field equipment (Note 4).

2. Basis of presentation:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements are reported in Canadian dollars ("CAD") which is the functional currency of the Company. The Company's subsidiary in Kazakhstan has a Kazakhstan Tenge ("KZT") functional currency. The Company's subsidiary in the Netherlands, which has a branch in Turkey ("Turkey Branch"), has a Turkish Lira ("TRY") functional currency.

Significant accounting estimates and judgments

The timely preparation of financial statements requires management to make use of judgments, estimates and assumptions when transactions affecting the current accounting period cannot be finalized until future periods. These estimates will affect assets, liabilities and the disclosure of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. Such estimates are based on informed judgments made by management. Actual results could differ from those estimates as future confirming events occur. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include:

i. Reserve estimates

Amounts recorded for depletion and depreciation and assessing the valuation of property and equipment for impairment are based on estimates of oil and natural gas reserves. By their nature, the estimates of

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reserves, including future sales prices, domestic versus export sales mix, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. A downward revision in the reserve estimates or an upward revision to future capital costs would affect the depletion expense and could result in an asset impairment, which would reduce future earnings and the associated net book value of assets. Accordingly, the impact on the consolidated financial statements of future periods could be material. The Company's oil and gas reserves are evaluated by an independent qualified reserves evaluator.

ii. Impairment

Estimates include volumes of recoverable reserves, future commodity prices, future operating and capital costs, production profiles, discount rates, and consequently fair values of properties. A downward revision in the reserve estimates or an upward revision to future capital costs could result in an asset impairment which would reduce future earnings and the associated net book value of assets. The allocation of assets into cash generating units ("CGU") requires significant judgment and interpretation. Factors considered include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure, and the manner in which management monitors and makes decisions about its operations. The recoverability of the assets is assessed at the CGU level. As such, the determination of a CGU could have a significant impact on impairment expense and reversals.

iii. Zharkamys exploration contract extension

The Company's Zharkamys West 1 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") ruled that the force majeure event was not recognized and reversed the decision of the Civil Court. The Company referred the case to the Kazakhstan Supreme Court ("Supreme Court") and in November 2017 the Supreme Court ruling overturned both the Civil Court and the Court of Appeal rulings and referred the case back to the Civil Court for further review by a new panel of judges. In March 2018, the Civil Court ruling confirmed that the force majeure event had occurred, in May 2018 the Court of Appeal ruling upheld that the force majeure event had occurred and on February 27, 2020, the Company received the 630 day extension to the Zharkamys Contract from the Ministry.

iv. Depletion

Estimates include the amount of reserve volumes and future development capital. Depletion is charged on a unit-of-production basis over the proved plus probable reserves and a revision in the productive capacity of the assets may result in increased depletion and a reduced net book value of assets.

v. Decommissioning obligations

Amounts recorded for decommissioning obligations and the related accretion expense require the use of estimates with respect to the amount and timing of asset retirements, site remediation, discount rates, inflation rates and related cash flows (Note 11). Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow. As a result of the long-term nature of the Company's operations, these estimates may change over time which may result in a change in the decommissioning provision and corresponding asset value, and impact future earnings as a result of changes in accretion and depletion expense.

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vi. Stock based compensation

Compensation costs related to the Company's stock option plan are subject to the estimation of what the ultimate payout will be using the Black-Scholes option pricing model, which is based on significant assumptions such as share price volatility, risk free rates, forfeiture rates and the expected life of granted stock options (Note 14).

vii. Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change and interpretation. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings (Note 17). Changes in the estimate of future taxable income and the recovery of deductible temporary differences may result in the recognition of a deferred tax asset on the statement of financial position and an increase in earnings at the time when the tax recovery is recorded.

viii. Other long term assets

Other long term assets are subject to estimates regarding the timing and amounts of future receipts and payments, discount rates and related cash flows (Notes 8). A change in the timing of cash flows or discount rates may impact earnings (loss) as a result of changes in finance income and expense.

Other long term assets include refundable value added tax ("VAT") receivables and restricted bank deposits for mandatory decommissioning obligation funding related to Condor's activities in Kazakhstan and Turkey and for the Poyraz Ridge pipeline surface access expropriation in Turkey. The VAT receivables are available for offset against VAT collected on future domestic sales and available for refund related to future export sales and are discounted from the expected date of receipt using a discount rate which approximates the market rate of interest. The bank deposits are invested in special interest bearing accounts and the funds are available at the Company's discretion for decommissioning obligations.

ix. Assets and liabilities held for sale and discontinued operations

The Company applied judgment in the application of its accounting policies in determining that the Sale Agreement transaction (Note 4) is probable, met the held for sale criteria as at December 31, 2019 and to estimate the Closing date.

3. Significant accounting policies:

Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from January 1, 2019, the accounting policies set out below have been consistently applied to all the periods presented in these financial statements by the Company and its subsidiaries, unless otherwise stated.

Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As at December 31, 2019 the Company has the following significant and wholly owned subsidiaries:

- Falcon Oil & Gas Ltd. LLP (Kazakhstan)
- Marsa Turkey B.V. (Netherlands and Turkey)

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ii. Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation and transactions

For the Company's foreign operations, assets and liabilities are translated to Canadian dollars from their functional currency using period end exchange rates, revenues and expenses are translated using average exchange rates during the period. Foreign currency translation adjustments are recognized in the translation reserve.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in the translation reserve.

Transactions in foreign currencies are translated into the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into the functional currency at period end exchange rates with resulting exchange gains and losses included in profit or loss for the period. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction.

Cash and cash equivalents

Cash and cash equivalents include short term, highly liquid investments that mature within three months of purchase.

Other current assets

Other current assets are comprised of the current portion of VAT receivables of foreign operations and Canadian goods and services tax receivables, bank deposits held for decommissioning obligations, prepaid expenses, supplies inventory and crude oil inventory.

Inventory

Inventory is valued at the lower of cost and net realizable value. Inventory cost is determined using the weighted average method. Supplies inventory includes all costs to purchase and other costs incurred in bringing the inventory item to its existing location and condition. Crude oil inventory includes all costs of production, storage, processing, transportation, royalties and attributed depletion expense on produced but unsold crude oil.

Oil and gas properties

All costs directly associated with the acquisition and development of oil and gas properties are capitalized on an area-by-area basis for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, gathering, storage, processing facilities, infrastructure completion, asset retirement costs, historical costs and transfers of exploration and evaluation assets. Oil and gas properties are depleted on a unit-of-production basis over the proved plus probable reserves and total project capital expenditures including future development costs.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair

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value of any other consideration given to acquire the asset.

Other equipment

Other equipment includes office equipment, which is depreciated over 3-6 years. Useful lives and residual values are reviewed at each reporting date.

Where an item of property, plant and equipment consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Impairment

Oil and gas properties and other equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any indication of impairment exists an estimate of the asset's or CGU's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment expense is charged to expense which reduces the carrying amount to its recoverable amount. Impairment expenses related to continuing operations are recognized in profit and loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment expense may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment expense is reversed only if there has been objective evidence of a change in the estimates used to determine the asset's recoverable amount since the last impairment expense was recognized and the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment expense been recognized for the asset in prior years.

Income taxes

Income taxes are comprised of current and deferred income taxes. Income tax is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is recognized in equity.

Current income tax expense is the expected income tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting period, adjusted for any income tax reassessments from prior periods.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not affect accounting or taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Deferred tax assets are reviewed at each reporting date.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and current tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Stock based compensation

The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model which employs various assumptions, based on management's best estimates at the time of grant, which impact the fair value calculated and ultimately, the expense that is recognized. The value of the stock options is recognized as an expense over the vesting period with an offsetting increase to contributed surplus. The expense is recognized on a graded basis, being higher in earlier years and lower in later years. Consideration paid for shares on exercise of the stock options will be added to share capital together with the amount of any contributed surplus that arose as a result of the grant of the exercised stock options. The Company does not capitalize stock based compensation costs.

Revenue recognition

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.

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.

Deferred revenue

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

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a risk-free rate that reflects current market assessments of the time value of money and the risks specific to

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the liability. The unwinding of the discount is recognized as a finance expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it's no longer probable that an outflow of economic benefits will be required, the provision is reversed.

Decommissioning obligations

Decommissioning obligations comprise present obligations for well abandonment, facility retirement and site restoration and are measured at the present value of the expected expenditures to be incurred based on projected remediation plans, current industry practices and technology and prevailing legislation. Increases in decommissioning obligations resulting from the passage of time are recorded as accretion expense. The cost is capitalized as a component of oil and gas properties and amortized as depletion and depreciation expense.

Changes in the estimated obligations resulting from revisions to the estimated timing, cost, or changes in the discount rate are recognized as a change in the decommissioning obligations and the related asset retirement cost.

Net income (loss) per share

The Company presents basic and diluted net income (loss) per share data for its common shares, calculated by dividing the net income (loss) attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share does not adjust the income (loss) attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

*Financial instruments**Classification and Measurement*

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.

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

Impairment

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.

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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.

Assets and liabilities held for sale and discontinued operations

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

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

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

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

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

Operating leases and right of use assets

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

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

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

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

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

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Changes in accounting policies

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

(a) Adjustments recognized on adoption of IFRS 16

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

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

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

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

As at (000's)	December 31, 2019	January 1, 2019
Properties	42	142
Equipment	1	5
Total right-of-use assets	43	147

Finance expense for the year ended December 31, 2019 includes \$0.01 million of accrued interest expense related to lease liabilities.

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

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

Practical expedients applied

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

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

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(b) Uncertainty over income tax treatments

Effective January 1, 2019, the Company adopted International Financial Reporting Interpretation Committee (“IFRIC”) 23, “Uncertainty over Income Tax Treatments” using the modified approach. The interpretation provides clarity on how to account for a tax position when there is uncertainty over income tax treatments. In determining the likely resolution of the uncertain tax positions, a position may be considered separately or as a group. In addition, an assessment is required to determine the probability that the tax authority will accept the tax position taken in income tax filings. If the uncertain income tax treatment is unlikely to be accepted, the accounting tax position must reflect an appropriate level of uncertainty. An uncertain tax position may be reassessed if new information changes the original assessment. The adoption of IFRIC 23 did not have a material impact on these consolidated financial statements.

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

Certain new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2020 and have not been applied in preparing the financial statements as of and for the year ended December 31, 2019:

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The new standards and interpretations are not expected to affect significantly the Company’s consolidated financial statements.

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

On September 23, 2019, Condor’s wholly owned subsidiary, Falcon Oil & Gas Ltd (“Falcon”) entered into a binding agreement to sell Falcon’s 100% interests in the Shoba production contract, Taskuduk production contract and associated field equipment for United States dollars (“USD”) 24.6 million (“Sale Agreement”). The buyer (“Buyer”) paid the USD 3.8 million deposit within ten business days of signing the Sale Agreement. In January 2020 certain terms of the Sale Agreement were amended and instead of using an escrow account for the remaining USD 20.8 million to be released upon closing the transaction (“Closing”), the Buyer paid USD 18.7 million in January 2020 and the remaining USD 2.1 million is due upon Closing.

Falcon remains the oilfield owner and operator until Closing occurs. Upon Closing, the net revenues less operating costs generated from the production and sale of crude oil from the oilfields will be attributed to the Buyer from the effective date of December 25, 2019 until the Closing date as an adjustment to the purchase consideration.

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The various Government of Kazakhstan consents and confirmations required for Closing have been received and all commercial conditions have been satisfied by Falcon and the Buyer. The respective addendums to the Shoba and Taskuduk production contracts have been signed by Falcon and the Buyer and submitted to the Government of Kazakhstan for final processing and execution. As per the Sale Agreement, Closing is scheduled to occur within ten business days from the receipt of the signed addendums.

As the transaction is subject to Government of Kazakhstan approvals, the Company applied judgment in determining that the transaction met the held for sale and discontinued operations criteria as at December 31, 2019 and to estimate the Closing date.

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

As at (000's)	December 31, 2019	December 31, 2018
Property, plant and equipment (Note 7)	18,620	-
Other long term assets (Note 8)	123	-
Assets held for sale	18,743	-
Other long term liabilities (Note 10)	2,439	-
Provisions (Note 11)	701	-
Liabilities held for sale	3,140	-
Net assets and liabilities held for sale	15,603	-

Financial information relating to the discontinued operations is presented in Note 22.

5. Cash and cash equivalents:

As at December 31 (000's)	2019	2018
Cash at bank	2,890	1,645
Short-term deposits	45	45
	2,935	1,690

Cash at bank earns interest at floating rates based on bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on expected cash requirements and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents approximates its carrying value due to its short-term nature.

6. Other current assets:

As at December 31 (000's)	2019	2018
Current portion of VAT receivables (Note 8)	3,566	1,588
Prepaid expenses	577	443
Restricted bank deposits	345	357
Supplies inventory	291	392
Crude oil inventory	51	157
	4,830	2,937

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The current portion of VAT receivables as of December 31, 2019 includes \$3.3 million reclassified from other long term assets related to the signing of the Sale Agreement in September 2019 (Note 4). The restricted bank deposits are denominated in USD and reserved for decommissioning obligations related to the Zharkamys Contract.

7. Property, plant and equipment:

(000's)	Oil and gas properties	Other equipment	Total
Cost			
As at December 31, 2017	61,613	1,703	63,316
Capital expenditures	5,741	79	5,820
Disposals	(211)	-	(211)
Change in decommissioning and historical costs	(326)	-	(326)
Foreign currency translation adjustment	(9,729)	(107)	(9,836)
As at December 31, 2018	57,088	1,675	58,763
Capital expenditures	1,753	2	1,755
Right-of-use lease assets (Note 16)	-	147	147
Change in decommissioning costs	384	-	384
Foreign currency translation adjustment	(5,155)	(150)	(5,305)
Reclassified as assets held for sale (Note 2)	(25,713)	-	(25,713)
As at December 31, 2019	28,357	1,674	30,031
Accumulated depletion, depreciation and impairment			
As at December 31, 2017	(4,082)	(1,544)	(5,626)
Depletion and depreciation	(6,363)	(47)	(6,410)
Disposals	22	-	22
Impairment	(3,798)	-	(3,798)
Foreign currency translation adjustment	360	97	457
As at December 31, 2018	(13,861)	(1,494)	(15,355)
Depletion and depreciation	(4,030)	(167)	(4,197)
Impairment	(4,293)	-	(4,293)
Foreign currency translation adjustment	1,589	165	1,754
Reclassified as assets held for sale (Note 2)	7,093	-	7,093
As at December 31, 2019	(13,502)	(1,496)	(14,998)
Net book value			
As at December 31, 2018	43,227	181	43,408
As at December 31, 2019	14,855	178	15,033

Oil and gas properties include field equipment and capital inventory in Kazakhstan of \$1.5 million (2018: \$3.6 million) which are not subject to depletion and the Poyraz Ridge and Destan gas fields in Turkey.

As an indicator of impairment was noted, the Company tested the property, plant and equipment in Turkey for impairment as at December 31, 2019 and determined that the carrying amount of the Poyraz Ridge and Destan CGU exceeded its recoverable amount of \$11.5 million (2018: 21.2 million), resulting in an impairment expense of \$4.3 million included in depletion, depreciation and impairment (2018: \$3.6 million). Future cash flows for the CGU declined due to lower expected production volumes and natural gas reserves.

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The recoverable amount was determined based on fair value less costs of disposal and calculated based on the discounted future cash flows of the proved plus probable reserves as of December 31, 2019 using forward prices and cost estimates, prepared by the Company's independent qualified reserves evaluators (Level 3).

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

Price in USD	2020	2021	2022	2023	2024	2025	2026	2030
Natural gas price (/Mcf)	7.39	7.54	7.69	7.85	8.00	8.16	8.33	9.01
Condensate price(/barrel)	56.25	56.86	58.12	59.40	60.70	62.04	63.40	69.12

The evaluation of discounted future cash flows was performed using a discount rate of 15% (2018: 15%) and an inflation rate of 2% (2018: 2%), which is used by the Company's independent qualified reserves evaluators in preparing their assessment of reserves. Based on the individual characteristics of the asset, other economic and operating factors are also considered, which may increase or decrease the implied discount rate.

The sensitivity analysis below shows the impact that a change in the discount rate or forward commodity prices would have on impairment testing for the CGU:

	Increase (decrease) to impairment
1% increase in the discount rate	241
1% decrease in the discount rate	(248)
5% increase in the forward price estimates	(964)
5% decrease in the forward price estimates	968

8. Other long term assets:

As at December 31 (000's)	2019	2018
Non-current VAT receivables	1,575	4,362
Non-current bank deposits	2,035	2,215
	3,610	6,577

VAT receivables are available for offset against VAT collected on future domestic sales and available for refund related to future export sales. VAT receivables in Kazakhstan are discounted from the expected date of receipt using a discount rate of 8.2% (2018: 8.6%) which estimates the market rate of return on a similar instrument. The total undiscounted VAT receivables, including current portion (Note 6) and non-current portion, amounts to \$5.4 million as at December 31, 2019 (2018: \$6.5 million).

The non-current bank deposits consist of \$1.8 million denominated in USD and \$0.2 million denominated in TRL, are invested in special interest bearing accounts and are comprised of \$1.5 million reserved for decommissioning obligations in Kazakhstan and Turkey and \$0.5 million related to the Poyraz Ridge pipeline surface access expropriation in Turkey.

Non-current VAT receivables of \$3.3 million have been reclassified to current portion (Note 6) and \$0.12 million of non-current bank deposits for decommissioning obligations have been reclassified to assets held for sale related to the signing of the Sale Agreement in September 2019 (Note 4).

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9. Long term borrowings:

As at December 31, 2019 the outstanding principal on the Company's secured non-revolving credit facility ("Credit Facility") amounted to USD 5.3 million. The Credit Facility bears interest at 14% with principal plus accrued interest payments due each quarter in arrears.

On December 30, 2019 certain terms of the Credit Facility were amended. The remaining principal payments were re-scheduled with the final payment due December 31, 2020 and the Company paid a restructuring fee of \$0.1 million in cash. The Company performed quantitative and qualitative analysis of the loan restructuring, concluded that the terms have not been substantially modified and as such have been accounted for as a modification of the existing loan. The loan restructuring costs were capitalized as part of the existing loan and the cash flows under the modified loan were rediscounted at the original effective interest rate and the resulting loss on the loan modification of \$0.1 million was recognized as finance expense in 2019.

Subsequent to period end, in January 2020 all amounts outstanding on the Credit Facility were repaid including principal, accrued interest and an early repayment penalty of \$0.07 million and the Credit Facility was cancelled.

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

10. Other long term liabilities:

Other long term liabilities are comprised of historical costs to be reimbursed to the Government of Kazakhstan related to the Taskuduk production contract and have been reclassified to liabilities held for sale in conjunction with the signing of the Sale Agreement in September 2019 (Note 4). The undiscounted historical costs of \$3.2 million as at December 31, 2019 (2018: \$3.8 million) are payable in quarterly installments over the life of the Taskuduk production contract and have been discounted to \$2.4 million as of December 31, 2019 (2018: \$2.8 million) based on the expected timing of future payments and an 8% weighted average discount rate based on historical risk-free rates.

11. Provisions:

As at December 31 (000's)	2019	2018
Beginning non-current portion	2,775	2,756
Increase in liabilities	19	254
Reclassified from (to) current portion	-	447
Change in estimates	365	(423)
Accretion expense	277	228
Transferred to liabilities held for sale (Note 4)	(701)	-
Foreign currency translation adjustment	(338)	(487)
Ending non-current portion	2,397	2,775
Beginning current portion	357	1,019
Change in estimates	-	(156)
Reclassified from (to) non-current portion	-	(447)
Foreign currency translation adjustment	(12)	(59)
Ending current portion	345	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 December 31, 2019 the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$3.2 million (December 31, 2018: \$4.2 million), which are expected to be incurred between 2020 and 2030.

The net present value of the decommissioning obligations is calculated with a weighted average inflation rate of 7.8% (December 31, 2018: 8.1%) and risk free discount rate of 9.5% (December 31, 2018: 11.2%).

12. Share Capital

The Company has authorized an unlimited number of common shares without nominal or par value and an unlimited number of first and second preferred shares without nominal or par values. As of December 31, 2019 the number of common shares issued is 44,165,100 (December 31, 2018: 44,165,100).

13. Income (loss) per share:

Per share amounts are calculated using a weighted average number of common shares of 44,165,100 for the year ended December 31, 2019 (2018: 43,533,867 shares). Outstanding stock options (Note 14) and the outstanding Warrants (Note 9) have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

14. Stock based compensation:

The Company has a stock option plan under which the Board may grant options for the purchase of common shares to directors, officers and employees for up to 10% of the outstanding common shares. The Board establishes the exercise price of options at the date of grant, provided that such price shall not be less than the volume weighted average trading price of the shares on the TSX for the five trading days immediately preceding the date of grant. The options are granted for a term of five years and fully vest after either two or three years from the date of grant. Each outstanding option is exercisable to acquire one common share of the Company.

The number and weighted average exercise prices of share options are as follows:

	Number of options	Weighted average exercise price
Outstanding as at December 31, 2017	3,029,000	2.31
Granted	1,872,000	0.59
Forfeited	(315,000)	0.73
Expired	(540,000)	(5.50)
Outstanding as at December 31, 2018	4,046,000	1.18
Granted	606,500	0.24
Forfeited	(162,500)	(0.78)
Expired	(218,500)	(3.35)
Outstanding as at December 31, 2019	4,271,500	0.95

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Details of the stock options outstanding as at December 31, 2019 are as follows:

Exercise price	Options outstanding		Options vested	
	Number	Average remaining life in years	Number	Average remaining life in years
\$0.22	491,500	4.2	168,835	4.1
\$0.33	100,000	4.8	33,333	4.8
\$0.59	1,672,000	3.2	1,128,005	3.2
\$1.33	725,000	1.2	725,000	1.2
\$1.50	948,000	1.0	948,000	1.0
\$1.60	335,000	0.2	335,000	0.2
	4,271,500	2.3	3,338,173	1.9

As of December 31, 2019, there are 4,271,500 stock options outstanding with a weighted average exercise price of \$0.95 (December 31, 2018: \$1.18). The 3,338,173 options exercisable at December 31, 2019 had a \$1.09 weighted average exercise price (December 31, 2018: \$1.42). In April 2019, 506,500 stock options were granted and the fair value of \$0.11 per option was estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 1.6% risk free interest rate; a 78.5% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.20; and an exercise price of \$0.22. In October 2019, 100,000 stock options were granted and the fair value of \$0.18 per option was estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 1.5% risk free interest rate; a 84.2% expected volatility, which is based on historical share price volatility of the Company; a grant date share price of \$0.32; and an exercise price of \$0.33.

15. Compensation expenses:

The aggregate payroll expense was \$3.6 million of salary and benefits (2018: \$4.0 million) and \$0.2 million of stock based compensation expense (2018: \$0.4 million). Key management comprises the executive officers and directors of the Company. Key management's compensation was comprised of \$1.3 million of salary and benefits (2018: \$1.3 million) and stock based compensation of \$0.1 million (2018: \$0.2 million). In the event of termination or change of control, members of key management (excluding directors) are each entitled to two years' annual compensation.

16. Finance income and expense:

For the year ended December 31 (000's)	2019	2018
Finance income:		
Interest income on bank deposits	66	62
Accretion of long term VAT receivables	313	404
	379	466
Finance expenses:		
Interest expense	(1,227)	(1,546)
Charges on discounting VAT	(99)	(87)
Accretion of provisions	(223)	(135)
Amortization of loan issuance costs	(480)	(451)
Loss on loan modification	(141)	(35)
Amortization of warrants	(264)	(384)
	(2,434)	(2,638)

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17. Income taxes:

Deferred tax assets are reviewed at each reporting date and are recognized for deductible temporary differences and unused tax losses only if it's probable that future taxable amounts will be available to utilize those temporary differences and losses.

The provision for income taxes differs from the amount computed by applying the statutory rates to earnings before taxes. The difference results from the following items:

For the year ended December 31 (000's)	2019	2018
Loss from continuing operations before income tax expense	(13,870)	(11,658)
Profit from discontinued operations before income tax expense	3,770	1,039
	(10,100)	(10,619)
Statutory rate	26.5%	27.0%
Tax provision (recovery) at statutory rate	(2,677)	(2,867)
Effect on taxes of:		
Change in unrecognized deferred tax assets	2,531	2,899
Change in tax rate	1,149	-
Permanent component of capital gain (loss)	(1,001)	3,523
Non-deductible expenses / non-taxable income	(644)	(578)
Stock based compensation expense	56	107
Foreign tax rate differentials	463	267
Other	123	100
Deferred income tax expense from discontinued operations	-	3,451

No deferred tax assets were recognized on the statement of financial position for the following deductible temporary differences:

As at December 31 (000's)	2019	2018
Property and equipment	136,013	126,787
Income tax losses	97,667	141,747
Other	2,738	6,419
Total deductible temporary differences	236,418	274,953

For income tax purposes, the Company has losses carried forward as at December 31, 2019 which may be used to reduce future years' taxable income. In Canada, the Company has \$37.9 million of losses carried forward which expire between 2028 and 2036; in the Netherlands, \$17.6 million which expire between 2020 and 2026; in Kazakhstan, \$30.0 million which expire between 2025 and 2027; in Turkey, \$7.9 million which expire between 2020 and 2022; and in the United States, \$4.3 million which expire between 2028 and 2036;.

At December 31, 2019, there is approximately \$74.1 million (2018: \$62.6 million) of undistributed retained earnings in foreign subsidiaries. Due to applicable foreign tax legislation only portion of such undistributed retained earnings in foreign subsidiaries may be subject to dividend withholding taxes in the country of origin upon repatriation. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings because the Company controls the relevant entities and has no committed plans to remit the earnings in the foreseeable future.

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The Dutch Tax Authority (“DTA”) has issued notices of assessment to New Horizon Energy Netherlands B.V., a wholly owned Company subsidiary based in the Netherlands (“New Horizon”) amounting to 4.4 million Euros (equivalent to \$6.4 million using December 31, 2019 exchange rate) related to taxation years 2013-2015. New Horizon has filed an objection and the matter is under further review by the DTA. 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 exploration and development activities in Kazakhstan. The Company expects to resolve these matters with the DTA without incurring any taxes payable.

18. Commitments and contingent liabilities:*Work commitments*

The contractual work commitments for the next twelve months pursuant to the Shoba and Taskuduk production contracts in Kazakhstan are \$2.4 million and will be the responsibility of the Buyer upon Closing the Sale Agreement discussed in Note 4.

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.

On February 27, 2020, the Company received the 630 day extension to the Zharkamys Contract from the Government of Kazakhstan. The extension period carries additional work commitments of \$4.0 million for the first twelve months and is comprised mainly of drilling two exploration wells.

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

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.

19. 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.

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The maximum exposure to credit risk at year end is as follows:

Carrying amounts as at December 31 (000's)	2019	2018
Cash and cash equivalents	2,935	1,690
Trade and other receivables	334	843
Other current financial assets	3,911	1,945
Other long term assets	3,610	6,577
	10,790	11,055

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 2019, sales of natural gas and related receivables in Turkey and sales of condensate in Turkey were each sold to one respective customer and are therefore subject to concentration risk (2018: one respective customer). As at December 31, 2019, the one gas marketer in Turkey represented 100% of outstanding trade receivables (December 31, 2018: one gas marketer in Turkey represented 100%).

Credit risk is mitigated by management's policies and practices. In Kazakhstan, sales are generally made on a 100% pre-payment basis although the Company occasionally extends credit to proven and reliable off-takers on small volumes of crude oil, subject to the off-taker adhering to a strict pre-determined short term payment schedule. In Turkey, the Company holds a bank guarantee provided by the buyer of its natural gas amounting to two month's estimated gas sales as security on gas sales receivables. The Company has examined its accounts receivable as at December 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.

In January 2020, the Company received USD 18.7 million related to the Sale Agreement (Note 4) and subsequently repaid the entire outstanding Credit Facility amount (Note 9). As of the date of these financial statements, the Company has positive working capital and no long term borrowings.

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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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
As at December 31, 2019					
Accounts payable and accrued liabilities	4,714	-	-	-	4,714
Borrowings including interest until maturity	6,909	-	-	-	6,909
Lease liabilities	47	-	-	-	47
As at December 31, 2018					
Accounts payable and accrued liabilities	5,181	-	-	-	5,181
Borrowings including interest until maturity	5,070	6,568	-	-	11,638
Non-cancellable operating leases	319	125	-	-	444
Other long term liabilities (undiscounted)	490	980	980	1,345	3,795

Market risk

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

Foreign currency exchange risk

The Company is exposed to significant foreign currency risk as the Company's crude oil and natural gas sales and a substantial portion of foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRL, and the Company's borrowings are denominated in USD. The Company had no forward exchange rate contracts in place at or during the years ended December 31, 2019 and 2018.

During the year ended December 31, 2019, the CAD appreciated from 1.36 per 1.00 USD to 1.30, the KZT appreciated from 384.20 per 1.00 USD to 381.18, and TRL depreciated from 5.26 per 1.00 USD to 5.94, which led to a foreign exchange loss of \$0.6 million (2018: loss of \$3.1 million) related mainly to a portion of USD denominated inter-company loans that are not considered part of the net investment in foreign operations.

During the year ended December 31, 2019, the KZT depreciated from 282 per 1.00 CAD to 292 and TRL depreciated from 3.86 per 1.00 CAD to 4.54 resulting in a \$2.2 million translation loss adjustment through equity (2018: loss of \$7.0 million).

A \$0.01 change in the Canadian dollar to U.S. dollar exchange rate at December 31, 2019 would have changed profit or loss by \$0.1 million (2018: \$0.1 million). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Interest rate risk is the risk of change in the borrowing rates of the Company. As indicated in Note 8, the interest rate on borrowings is fixed and therefore the Company has no current exposure to changes in interest rates except for interest rates on cash and cash equivalents.

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Commodity price risk

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

20. Supplementary cash flow information:

The Company received interest income of \$0.1 million for the year ended December 31, 2019 (2018: \$0.1 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:

Long term borrowings (000's)	
As at December 31, 2017	13,083
Repayment of borrowings	(3,666)
Interest paid on borrowings	(3,223)
Non-cash movements	2,983
As at December 31, 2018	9,177
Repayment of borrowings	(2,637)
Interest paid on borrowings	(1,212)
Non-cash movements	1,518
As at December 31, 2019	6,846

21. 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 December 31, 2019				
Property, plant and equipment	62	1,253	13,718	15,033
Total assets	2,445	27,446	15,594	45,485
Total liabilities	8,202	12,025	2,505	22,732
As at December 31, 2018				
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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Segmented information (000's)	Corporate	Kazakhstan	Turkey	Total
<u>For the year ended December 31, 2019</u>				
Property, plant and equipment expenditures	12	1	139	152
Revenue				
Natural gas sales	-	-	5,006	5,006
Condensate sales	-	-	163	163
Royalties	-	-	(647)	(647)
Total revenue	-	-	4,522	4,522
Expenses				
Production costs	-	-	1,225	1,225
Transportation and selling	-	-	445	445
General and administrative	5,070	1,018	966	7,054
Depletion and depreciation	115	35	2,367	2,517
Impairment expense	-	-	4,293	4,293
Stock based compensation	211	-	-	211
Finance income	(379)	-	-	(379)
Finance expense	2,434	-	-	2,434
Foreign exchange loss	592	-	-	592
Net loss from continuing operations	(8,043)	(1,053)	(4,774)	(13,870)
Net income from discontinued operations	-	3,770	-	3,770
Net income (loss)	(8,043)	2,717	(4,774)	(10,100)
<u>For the year ended December 31, 2018</u>				
Property, plant and equipment expenditures	9	61	1,934	2,004
Revenue				
Natural gas sales	-	-	11,204	11,204
Condensate sales	-	-	471	471
Royalties	-	-	(1,407)	(1,407)
Total revenue	-	-	10,268	10,268
Expenses				
Production costs	-	-	1,491	1,491
Transportation and selling	-	-	615	615
General and administrative	3,547	1,102	1,455	6,104
Depletion and depreciation	13	43	4,216	4,272
Impairment expense	-	-	3,798	3,798
Stock based compensation	396	-	-	396
Finance income	(466)	-	-	(466)
Finance expense	2,638	-	-	2,638
Foreign exchange loss	3,078	-	-	3,078
Net loss from continuing operations	(9,206)	(1,145)	(1,307)	(11,658)
Net loss from discontinued operations	-	(2,412)	-	(2,412)
Net loss	(9,206)	(3,557)	(1,307)	(14,070)

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22. Discontinued operations:

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

For the year ended December 31	2019	2018
Revenue		
Crude oil sales	7,996	5,820
Royalties	(106)	(103)
Total revenue	7,890	5,717
Expenses		
Production costs	1,837	1,614
Transportation and selling	-	422
General and administrative	272	307
Depletion and depreciation	1,747	2,129
Total expenses	(3,856)	(4,472)
Finance income	3	2
Finance expense	(266)	(334)
Foreign exchange (loss) gain	(1)	126
Net income before tax	3,770	1,039
Deferred income tax expense	-	(3,451)
Net income (loss) from discontinued operations	3,770	(2,412)
Basic and diluted net income (loss) per share	0.08	(0.06)

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

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

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The following table presents the impact on the consolidated statements of cash flows for the years ended December 31, 2019 and 2018 due to the reclassification of the Shoba and Taskuduk operations to discontinued operations:

For the year ended December 31	2019	2018
Cash from (used in) continuing operations	(3,570)	3,638
Cash from (used in) discontinued operations	5,663	3,834
Cash from (used in) operating activities	2,093	7,472
Cash from (used in) continuing investing activities	5,249	(3,331)
Cash from (used in) discontinued investing activities	(2,204)	118
Cash from (used in) investing activities	3,045	(3,213)
Cash from (used in) continuing financing activities	(3,962)	(6,889)
Change in cash	1,176	(2,630)

23. Events occurring after the reporting period:*Zharkamys Contract extension*

On February 27, 2020, the Company received the 630 day extension to the Zharkamys Contract from the Government of Kazakhstan. The extension period carries additional work commitments of \$4.0 million for the first twelve months and is comprised mainly of drilling two exploration wells. See Notes 2 and 18 for further details,

Assets and liabilities held for sale and discontinued operations – sale of Shoba and Taskuduk production contracts

In January 2020 certain terms of the Sale Agreement were amended and instead of using an escrow account for the remaining USD 20.8 million to be released upon closing the transaction (“Closing”), the Buyer paid USD 18.7 million in January 2020 and the remaining USD 2.1 million is due upon Closing. See Note 4 for further details. Falcon remains the oilfield owner and operator until Closing occurs. Upon Closing, the net revenues less operating costs generated from the production and sale of crude oil from the oilfields will be attributed to the Buyer from the effective date of December 25, 2019 until the Closing date as an adjustment to the purchase consideration.

Long term borrowings

In January 2020, all amounts outstanding on the Credit Facility were repaid including principal, accrued interest and an early repayment penalty of \$0.07 million and the Credit Facility was cancelled. See Note 9 for further details.