



**Interim Condensed Consolidated Financial Statements**

**For the three months ended March 31, 2014**

**(unaudited)**

**Condor Petroleum Inc.**

Consolidated Statements of Financial Position (unaudited)

Stated in thousands of Canadian dollars

<b>As at</b>		<b>March 31, 2014</b>	<b>December 31, 2013</b>
	Note		
<b>Assets</b>			
Cash and cash equivalents		78,789	11,950
Trade and other receivables		5,949	414
Other current assets		1,361	1,598
		86,099	13,962
Assets held for sale	2	-	67,271
Total current assets		86,099	81,233
Exploration and evaluation assets	3	98,563	112,873
Property and equipment		3,926	4,519
Other long term assets	4	8,601	9,601
Total assets		197,189	208,226
<b>Liabilities</b>			
Accounts payable and accrued liabilities		3,903	3,528
Current borrowings	5	-	15,397
Current portion of provisions		580	589
		4,483	19,514
Liabilities held for sale	2	-	8,897
Total current liabilities		4,483	28,411
Long term borrowings	6	-	2,569
Other long term liabilities	7	4,233	4,042
Provisions		953	1,140
Total liabilities		9,669	36,162
<b>Equity</b>			
Share capital		263,035	263,035
Contributed surplus		17,545	17,064
Translation reserve	1	(14,421)	4,919
Deficit		(78,639)	(109,028)
Equity attributable to Condor		187,520	175,990
Non-controlling interest	2	-	(3,926)
Total equity		187,520	172,064
Total liabilities and equity		197,189	208,226

Commitments and contingent liabilities (Note 9)

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

**Condor Petroleum Inc.**

Consolidated Statements of Comprehensive Income (unaudited)

Stated in thousands of Canadian dollars

(except for per share amounts)

<b>For the three months ended March 31</b>		<b>2014</b>	<b>2013</b>
	Note		
<b>Revenue</b>			
Crude oil sales		458	1,889
Other income		975	-
<b>Total revenue</b>		<b>1,433</b>	<b>1,889</b>
<b>Expenses</b>			
Production costs		665	1,129
Royalty expense		20	73
General and administrative		3,078	2,050
Depletion and depreciation		628	1,387
Stock based compensation		481	562
<b>Total expenses</b>		<b>(4,872)</b>	<b>(5,201)</b>
		<b>(3,439)</b>	<b>(3,312)</b>
Finance income		159	138
Finance and accretion expenses		(874)	(86)
Foreign exchange gain		187	91
<b>Net loss from continuing operations</b>		<b>(3,967)</b>	<b>(3,169)</b>
Discontinued operations	2	(190)	(330)
Gain on disposal of discontinued operations	2	34,546	-
<b>Net income (loss)</b>		<b>30,389</b>	<b>(3,499)</b>
Foreign currency translation adjustment ("FCTA")	1	(15,298)	3,429
Transfer of accumulated FCTA on disposal	2	(4,042)	-
<b>Comprehensive income (loss)</b>		<b>11,049</b>	<b>(70)</b>
<b>Net income (loss) attributable to</b>			
Condor		30,389	(3,365)
Non-controlling interests		-	(134)
<b>Net income (loss)</b>		<b>30,389</b>	<b>(3,499)</b>
<b>Comprehensive income (loss) attributable to</b>			
Condor continuing operations		(21,089)	569
Condor discontinued operations		32,138	(400)
Non-controlling interests		-	(239)
<b>Comprehensive income (loss)</b>		<b>11,049</b>	<b>(70)</b>
<b>Basic and diluted income (loss) per share</b>			
Net income (loss) from continuing operations	8	(0.01)	(0.01)
Discontinued operations	8	0.10	0.00
<b>Net Income (loss)</b>	<b>8</b>	<b>0.09</b>	<b>(0.01)</b>

## Condor Petroleum Inc.

Consolidated Statements of Changes in Equity (Unaudited)

Stated in thousands of Canadian dollars (except for number of common shares)

	Number of common shares	Share capital	Contributed surplus	Translation reserve	Deficit	Equity attributable to Condor	Non- controlling interest	Total
As at December 31, 2012	346,120,871	263,035	14,390	(5,588)	(93,761)	178,076	(2,880)	175,196
Stock based compensation expense	-	-	562	-	-	562	-	562
Foreign currency translation adjustment	-	-	-	3,534	-	3,534	(105)	3,429
Net loss	-	-	-	-	(3,365)	(3,365)	(134)	(3,499)
<b>As at March 31, 2013</b>	<b>346,120,871</b>	<b>263,035</b>	<b>14,952</b>	<b>(2,054)</b>	<b>(97,126)</b>	<b>178,807</b>	<b>(3,119)</b>	<b>175,688</b>
Stock based compensation expense	-	-	2,112	-	-	2,112	-	2,112
Foreign currency translation adjustment	-	-	-	6,973	-	6,973	(514)	6,459
Net loss	-	-	-	-	(11,902)	(11,902)	(293)	(12,195)
<b>As at December 31, 2013</b>	<b>346,120,871</b>	<b>263,035</b>	<b>17,064</b>	<b>4,919</b>	<b>(109,028)</b>	<b>175,990</b>	<b>(3,926)</b>	<b>172,064</b>
Stock based compensation expense	-	-	481	-	-	481	-	481
Foreign currency translation adjustment (Note 1)	-	-	-	(15,298)	-	(15,298)	-	(15,298)
Disposal of non-controlling interest (Note 2)	-	-	-	-	-	-	3,926	3,926
Transfer into income on disposal (Note 2)	-	-	-	(4,042)	-	(4,042)	-	(4,042)
Net income	-	-	-	-	30,389	30,389	-	30,389
<b>As at March 31, 2014</b>	<b>346,120,871</b>	<b>263,035</b>	<b>17,545</b>	<b>(14,421)</b>	<b>(78,639)</b>	<b>187,520</b>	<b>-</b>	<b>187,520</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>2014</b>	<b>2013</b>
	Note		
<b>Operating activities:</b>			
Net income (loss) from continuing operations		(3,967)	(3,169)
Items not affecting cash:			
Depletion and depreciation		628	1,387
Stock based compensation		481	562
Non-cash finance income		(137)	(111)
Non-cash finance expenses		874	86
Unrealized foreign exchange gains		(900)	(162)
Interest paid	5, 6	(1,218)	-
		(4,239)	(1,407)
Changes in non-cash working capital		1,891	(3,635)
Cash used in continuing operating activities		(2,348)	(5,042)
Cash from discontinued operating activities	2	30	151
Cash used in operating activities		(2,318)	(4,891)
<b>Investing activities:</b>			
Exploration and evaluation expenditures	3	(2,107)	(3,659)
Property and equipment expenditures		(166)	(189)
Value added tax paid	4	(175)	(324)
Changes in non-cash working capital		(1,269)	1,588
Cash used in continuing investing activities		(3,717)	(2,584)
Proceeds on disposal of discontinued operations	2	90,555	-
Cash used in discontinued investing activities	2	(167)	(1,536)
Cash from (used in) investing activities		86,671	(4,084)
<b>Financing activities:</b>			
Repayment of borrowings	5, 6	(17,500)	-
Cash used in financing activities		(17,500)	-
<b>Change in cash:</b>			
Change in cash		66,853	(8,975)
Effect of foreign exchange on cash		(14)	137
Cash and cash equivalents, beginning of period		11,950	19,820
Cash and cash equivalents, end of period		78,789	10,982

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

## **Condor Petroleum Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2014

### **1. Corporate information:**

#### *Reporting entity:*

Condor Petroleum Inc. ("Condor" or the "Company") is a publicly traded company with activities in 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, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on March 14, 2014 by the Board of Directors.

#### *Nature of operations:*

The Company owns a 100% interest in the Zharkamys West 1 territory ("Zharkamys") in western Kazakhstan. The Zharkamys contract with the Government of Kazakhstan is currently in the exploration period until August 27, 2015. Upon commercial discovery, the Company has the exclusive right to enter the development period by executing a development contract.

#### *Basis of presentation*

These financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board 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, 2013, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies used to prepare these financial statements are consistent with the policies at December 31, 2013 except as noted below.

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.

In February, 2014, the Government of Kazakhstan decided not to maintain the KZT to US \$ exchange rate, which had been fixed in prior periods and the exchange rate increased from 154 KZT per US \$1 at December 31, 2013 to 182 per US \$1 at March 31, 2014. The devaluation of the KZT resulted in significant decreases to KZT denominated assets and liabilities and a \$15.3 million foreign currency translation adjustment in the current period.

The financial statements have been prepared on the historical cost basis, except for held for trading financial assets, which are measured at fair value with changes in fair value recorded in earnings.

#### *Changes in Accounting Policies*

On January 1, 2014, the Company adopted new accounting standards with respect to impairment of assets (IAS 36), and recognition of liabilities for levies imposed by governments (IFRIC 21). The adoption of these amendments and standards had no impact on the amounts recorded in the financial statements as at January 1, 2014 or on the comparative periods.

#### *Fair value of financial instruments*

Loans and receivables include cash and cash equivalents, trade and other receivables, other current assets and other long term assets. Other financial liabilities include accounts payable and accrued liabilities, and other long term liabilities. The fair value of cash and cash equivalents, accounts receivable, other current assets and accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these

**Condor Petroleum Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2014

instruments. The carrying value of other long term assets and other long term liabilities approximate their fair value.

**2. Disposal of Marsel and discontinued operations:***Marsel territory*

On January 28, 2014, Condor's wholly owned subsidiary, Condor Netherlands Petroleum B.V., completed the sale of its 66% participating interest in the Marsel territory located in the Chu-Sarysu basin in southeast Kazakhstan ("Marsel") and certain indebtedness of Marsel for gross proceeds of US\$88.0 million (the "Marsel Sale"). US \$83.0 million was received in February, 2014, and US \$5.0 million is in escrow until July 27, 2014. The gain on disposal is summarized as follows (in \$000's):

<b>Marsel Sale proceeds</b>	
Cash (US \$83,000)	92,528
Proceeds receivable, held in escrow (US \$5,000)	5,574
Purchase price adjustment <sup>(1)</sup>	(1,973)
<b>Net Marsel Sale proceeds</b>	<b>96,129</b>
<b>Book value of Marsel net assets</b>	
Cash and cash equivalents	167
Restricted cash and other current assets	629
Exploration and evaluation assets	65,790
Property and equipment	3,731
Other long term assets	746
Accounts payable and accrued liabilities	(551)
Current portion of provisions	(209)
Current borrowings	(5,717)
Other long term liabilities	(2,523)
Provisions	(364)
Non-controlling interest	3,926
<b>Book value of Marsel net assets</b>	<b>65,625</b>
Gain on disposal before transfer of accumulated FCTA	30,504
Transfer of accumulated FCTA on disposal	4,042
<b>Gain on disposal</b>	<b>34,546</b>

(1) \$2.0 million was deducted from the sale proceeds for the buyer's future withholding tax payable

The net assets and liabilities of Marsel were initially reclassified as held for sale in the second quarter of 2013 following the execution of the Marsel Sale agreement, and at December 31, 2013, \$67.3 million of assets and \$8.9 million of liabilities were classified as held for sale. For the period ended March 31, 2014, Marsel incurred \$0.2 million of expenses which have been included in discontinued operations on the statement of comprehensive income (three months ended March 31, 2013: \$0.4 million).

*Canadian operations*

The Company's Canadian oil and gas properties provided \$0.5 million of revenue and \$0.4 million of expenses in the first quarter of 2013. The Company disposed of its remaining Canadian producing oil and gas properties during the second quarter of 2013 for net proceeds of \$2.0 million.

**Condor Petroleum Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2014

**3. Exploration and evaluation assets:**

Exploration and evaluation assets is comprised of the Zharkamys property in Kazakhstan.

For the period ended (000's)	March 31, 2014	December 31, 2013
<b>Cost</b>		
Balance, beginning of period	117,124	146,475
Capital expenditures	2,107	14,817
Capital expenditures of discontinued operations prior to reclassification	-	2,649
Increase to historical cost obligation	-	2,602
Change in decommissioning provision and other	(58)	223
Foreign currency translation adjustment	(16,558)	8,547
Reclassified as assets held for sale	-	(58,189)
Balance, end of period	102,615	117,124
<b>Accumulated depletion</b>		
Balance, beginning of period	(4,251)	(1,470)
Depletion	(384)	(2,623)
Foreign currency translation adjustment	583	(158)
Balance, end of period	(4,052)	(4,251)
Net book value, end of period	98,563	112,873

**4. Other long term assets:**

As at (000's)	March 31, 2014	December 31, 2013
Value added tax receivable	7,473	8,303
Non-current bank deposits	1,128	1,298
	8,601	9,601

Undiscounted value added tax ("VAT") receivables of \$8.6 million (December 31, 2013 - \$9.8 million) are available for offset against VAT collected on future domestic sales and available for refund related to future export sales. The VAT receivables are discounted from the expected date of receipt using a discount rate of 4.5% (2013 – 5.3%), which estimates the market rate of return on a similar instrument.

The non-current bank deposits are invested in special interest bearing accounts and, upon entering the development stage, the funds are available at the Company's discretion for decommissioning obligations.

**5. Current borrowings:**

On September 16, 2013, the Company issued a senior unsecured note with a principal amount of \$15.0 million (the "Note") and bearing interest at 16% per annum with 1% paid upon closing and the remaining 15% accruing daily and payable quarterly in arrears. The Note was due on the earlier of September 15, 2014 or on the receipt of the proceeds from the Marsel Sale (Note 2). The Note required the equivalent of nine months interest calculated from September 16, 2013, less interest paid, to be paid if the Note was repaid on or before June 16, 2014. In February, 2014, upon receipt of the Marsel Sale proceeds as described in Note 2, the full amount of principal and the equivalent of nine months interest, less interest paid to date, was due and paid to the Note holder.



**Condor Petroleum Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2014

**6. Long term borrowings:**

EurAsia Resource Holdings AG ("EurAsia") provided a credit facility to the Company carrying interest at 5% and with interest and principal due January 1, 2015. EurAsia and its parent company, EurAsia Resource Value SE, held 49.9% of the outstanding common shares of Condor at March 31, 2014. On June 13, 2013, \$2.5 million was drawn on the facility. In March, 2014, the Company repaid the \$2.5 million principal and \$0.1 million accrued interest thereon, and the facility was cancelled.

**7. Other long term liabilities:**

Other long term liabilities comprise obligations to reimburse the Government of Kazakhstan for historical geological and exploration expenditures incurred in Zharkamys. The liabilities are deferred during the exploration period and are to be repaid during the development period with repayment terms to be determined. The liabilities are non-interest bearing and the undiscounted amount at March 31, 2014 of \$6.0 million (December 31, 2013 – \$6.0 million) has been discounted to a value of \$4.2 million (December 31, 2013 – \$4.0 million) based on the estimated timing of future payments and a weighted average 8% discount rate.

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

Per share amounts are calculated using 346,120,871 weighted average common shares for the periods ended March 31, 2014 and 2013. Outstanding stock options have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

During the three months ended March 31, 2014, 351,666 stock options with a weighted average exercise price of \$1.13 were forfeited. As at March 31, 2014, 29,355,000 stock options with a weighted average exercise price of \$0.92 were outstanding.

On April 7, 2014 the Company granted 2,665,000 stock options with an exercise price of \$0.34; exercisable one third immediately, one third on April 7, 2015, and one third on April 7, 2016, and expire on April 7, 2019.

**9. Commitments and contingent liabilities:***Work commitments*

The Company has contractual work commitments pursuant to the Zharkamys territory in Kazakhstan. Contractual work commitments are amended from time to time in accordance with planned exploration and development activities proposed by the Company and approved by the Government of Kazakhstan and the amounts could be significant. In addition, any exploration period extensions or subsequent development periods would likely carry additional contractual work commitments, which could be significant.

Non-fulfilment of contractual work commitments in Kazakhstan could result in punitive actions by the Government of Kazakhstan including suspending or revoking the contract. Financial contractual work commitment shortfalls may be subject to penalties of 30% of the shortfall.

The remaining work commitments, as at March 31, 2014 are US \$2.4 million in 2014 and US \$9.7 million in 2015, for a total of US \$12.1 million.

*Sagiz oil terminal*

The Company signed a letter of intent in 2012 to purchase a 90% interest in the Sagiz oil storage terminal, located 12 kilometers northwest of Zharkamys. The purchase is subject to the terminal being refurbished, operational and licensed for use, and the estimated cost is \$2.5 million.