CONDOR PETROLEUM INC

Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2014

(unaudited)

Condor Petroleum Inc.

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

As at	Note	June 30, 2014	December 31, 2013
Assets			
Cash and cash equivalents		68,871	11,950
Trade and other receivables		5,573	414
Other current assets		2,946	1,598
		77,390	13,962
Assets held for sale	2	-	67,271
Total current assets		77,390	81,233
Exploration and evaluation assets	3	95,910	112,873
Property and equipment		3,755	4,519
Other long term assets	4	8,529	9,601
Total assets		185,584	208,226
Liabilities			
Accounts payable and accrued liabilities		1,931	3,528
Current borrowings	5	-	15,397
Current portion of provisions		580	589
		2,511	19,514
Liabilities held for sale	2	-	8,897
Total current liabilities		2,511	28,411
Long term borrowings	6	-	2,569
Other long term liabilities	7	4,172	4,042
Provisions		1,307	1,140
Total liabilities		7,990	36,162
Equity			
Share capital		263,035	263,035
Contributed surplus		18,124	17,064
Translation reserve	1	(18,752)	4,919
Deficit		(84,813)	(109,028)
Equity attributable to Condor		177,594	175,990
Non-controlling interest	2	-	(3,926)
Total equity		177,594	172,064
Total liabilities and equity		185,584	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)

For the period ended June 30	Note	Three months 2014	Three months 2013	Six months 2014	Six months 2013
Revenue					
Crude oil sales		510	706	968	2,595
Other income		-	-	975	-
Total revenue		510	706	1,943	2,595
		-			
Expenses		-			
Production costs		743	847	1,408	1,976
Royalty expense		25	29	45	102
General and administrative		2,125	2,270	5,203	4,320
Depletion and depreciation		486	653	1,114	2,040
Stock based compensation	8	579	1,557	1,060	2,120
Total expenses		(3,958)	(5,356)	(8,830)	(10,558)
		(3,448)	(4,650)	(6,887)	(7,963)
Finance income		141	187	300	325
Finance and accretion expenses		(129)	(107)	(1,003)	(193)
Foreign exchange gain (loss)		(2,738)	(41)	(2,551)	51
Net loss from continuing operations		(6,174)	(4,611)	(10,141)	(7,780)
Discontinued operations	2	-	(107)	(190)	(437)
Gain on disposal of discontinued operations	2	-	-	34,546	-
Net income (loss)		(6,174)	(4,718)	24,215	(8,217)
Foreign currency translation adjustment (“FCTA”)	1	(4,331)	4,351	(19,629)	7,780
Transfer of accumulated FCTA on disposal	2	-	-	(4,042)	-
Comprehensive income (loss)		(10,505)	(367)	544	(437)
Net income (loss) attributable to					
Condor		(6,174)	(4,586)	24,215	(7,952)
Non-controlling interests		-	(132)	-	(265)
Net income (loss)		(6,174)	(4,718)	24,215	(8,217)
Comprehensive income (loss) attributable to					
Condor continuing operations		(10,505)	941	(31,593)	1,510
Condor discontinued operations		-	(768)	32,137	(1,168)
Non-controlling interests		-	(540)	-	(779)
Comprehensive income (loss)		(10,505)	(367)	544	(437)
Basic and diluted income (loss) per share					
Net income (loss) from continuing operations	9	(0.02)	(0.01)	(0.03)	(0.02)
Discontinued operations	9	(0.00)	(0.00)	0.10	(0.00)
Net Income (loss)	9	(0.02)	(0.01)	0.07	(0.02)

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

Condor Petroleum Inc.

Consolidated Statements of Changes in Equity (Unaudited)
Stated in thousands of Canadian dollars (except for number of common shares)

	Number of common shares	Share capital	Contributed surplus	Translation reserve	Deficit	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	-	-	2,120	-	-	**2,120**	-	**2,120**
Foreign currency translation adjustment	-	-	-	8,294	-	**8,294**	(514)	**7,780**
Net loss	-	-	-	-	(7,952)	**(7,952)**	(265)	**(8,217)**
As at June 30, 2013	**346,120,871**	**263,035**	**16,510**	**2,706**	**(101,713)**	**180,538**	**(3,659)**	**176,879**
Stock based compensation expense	-	-	554	-	-	554	-	**554**
Foreign currency translation adjustment	-	-	-	2,213	-	2,213	(105)	**2,108**
Net loss	-	-	-	-	(7,315)	(7,315)	(162)	**(7,477)**
As at December 31, 2013	**346,120,871**	**263,035**	**17,064**	**4,919**	**(109,028)**	**175,990**	**(3,926)**	**172,064**
Stock based compensation expense (Note 8)	-	-	1,060	-	-	**1,060**	-	**1,060**
Foreign currency translation adjustment (Note 1)	-	-	-	(19,629)	-	**(19,629)**	-	**(19,629)**
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	-	-	-	-	24,215	**24,215**	**-**	**24,215**
As at June 30, 2014	**346,120,871**	**263,035**	**18,124**	**(18,752)**	**(84,813)**	**177,594**	**-**	**177,594**

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

Condor Petroleum Inc.
Consolidated Statements of Cash Flows (unaudited)
Stated in thousands of Canadian dollars

For the period ended June 30	Note	Three months 2014	Three months 2013	Six months 2014	Six months 2013
Operating activities:					
Net loss from continuing operations		(6,174)	(4,611)	(10,141)	(7,780)
Items not affecting cash:					
Depletion and depreciation		486	653	1,114	2,040
Stock based compensation	8	579	1,557	1,060	2,120
Non-cash finance income		(132)	(169)	(269)	(280)
Non-cash finance expense		129	101	1,003	187
Unrealized exchange (gain) loss		2,067	(144)	1,166	(309)
Interest paid	5, 6	-	-	(1,218)	-
Decommissioning costs		-	(319)	-	(319)
		(3,045)	(2,932)	(7,285)	(4,341)
Changes in non-cash working capital		(1,668)	1,607	223	(2,072)
Cash used in continuing operations		(4,713)	(1,325)	(7,062)	(6,413)
Cash from (used in) discontinued operations	2	-	(519)	30	(369)
Cash used in operating activities		(4,713)	(1,844)	(7,032)	(6,782)
Investing activities:					
Exploration and evaluation expenditures	3	(1,332)	(5,976)	(3,439)	(9,636)
Property and equipment expenditures		(112)	(229)	(278)	(418)
Value added tax paid	4	(133)	(402)	(308)	(726)
Changes in non-cash working capital		(1,745)	407	(3,013)	1,995
Cash used in continuing investing activities		(3,322)	(6,200)	(7,038)	(8,785)
Proceeds on disposal	2	-	2,107	90,555	2,107
Cash from (used in) discontinued investing	2	-	96	(167)	(1,362)
Cash from (used in) investing activities		(3,322)	(3,997)	83,350	(8,040)
Financing activities:					
Proceeds (repayment) of borrowings	6	-	2,500	(17,500)	2,500
Cash from (used in) continuing financing activities		-	2,500	(17,500)	2,500
Cash from discontinued financing activities	2	-	5,235	-	5,235
Cash from financing activities		-	7,735	(17,500)	7,735
Change in cash		(8,035)	1,894	58,818	(7,087)
Effect of foreign exchange on cash		(1,883)	131	(1,897)	274
Cash and cash equivalents, beginning		78,789	10,982	11,950	19,820
Cash and cash equivalents held for sale	2	-	(4,242)	-	(4,242)
Cash and cash equivalents, ending		68,871	8,765	68,871	8,765

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

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 June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on August 13, 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. Foreign currency translation adjustments are recognized in comprehensive income and will eventually be reclassified to profit or loss on eventual disposal or sale of the Company’s subsidiaries.

In February, 2014, the Government of Kazakhstan lowered the KZT to US dollar (US $) exchange rate, which had been fixed in prior periods. As a consequence of this, the KZT to CAD exchange rate increased from 143 KZT per CAD at December 31, 2013 to 165 KZT per CAD at March 31, 2014. During the three months ended June 30, 2014, the KZT increased further to 172 KZT per CAD at June 30, 2014 as a result of the appreciation of CAD against the US $. These increases resulted in significant decreases to KZT denominated assets and liabilities and the Company recorded a $4.3 and $19.6 million foreign currency translation adjustment for respective three and six month periods ended June 30, 2014.

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.

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 instruments. The carrying value of other long term assets and other long term liabilities approximate their fair value as they are either discounted at, or carry interest at a market rate.

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.

New standards and interpretations not yet adopted

On July 24, 2014, the IASB issued IFRS 9, “Financial Instruments” (“IFRS 9”) to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement.” IFRS 9 is effective for years beginning on or after January 1, 2018. In May 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017. The standard may be applied retrospectively or using a modified retrospective approach. Early adoption of these standards is permitted and the Company is currently evaluating the impact of these new standards on the Financial Statements.

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 was received in July 2014. The gain on disposal is summarized as follows (in $000’s):

Marsel Sale proceeds	
Cash (US $83,000)	92,528
Proceeds receivable, held in escrow (US $5,000)	5,574
Purchase price adjustment(1)	(1,973)
Net Marsel Sale proceeds	96,129
Book value of Marsel net assets	
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
Book value of Marsel net assets	65,625

Gain on disposal before transfer of accumulated FCTA	30,504
Transfer of accumulated FCTA on disposal	4,042
Gain on disposal	34,546

(1) Pursuant to the Marsel Sale agreement, $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 three and six month periods ended June 30, 2014, Marsel incurred nil and $0.2 million of expenses which have been included in discontinued operations on the statement of comprehensive income (2013: $0.4 million and $0.8 million).

Canadian operations

The Company's Canadian oil and gas properties provided $0.6 million of revenue and $0.5 million of expenses in the first half of 2013 (three months ended June 30 2013: $0.2 million of revenue and $0.2 million of expenses). The Company disposed of its remaining Canadian producing oil and gas properties during the second quarter of 2013 for net proceeds of $2.1 million and recognized a $0.2 million gain on disposal.

3. Exploration and evaluation assets:

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

For the period ended (000's)	**June 30, 2014**	**December 31, 2013**
Cost		
Balance, beginning of period	117,124	146,475
Capital expenditures	3,439	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	343	223
Foreign currency translation adjustment	(20,716)	8,547
Reclassified as assets held for sale	-	(58,189)
Balance, end of period	100,190	117,124
Accumulated depletion		
Balance, beginning of period	(4,251)	(1,470)
Depletion	(768)	(2,623)
Foreign currency translation adjustment	739	(158)
Balance, end of period	(4,280)	(4,251)
Net book value, end of period	95,910	112,873

4. Other long term assets:

As at (000's)	**June 30, 2014**	**December 31, 2013**
Value added tax receivable	7,442	8,303
Non-current bank deposits	1,087	1,298
	8,529	9,601

Undiscounted value added tax ("VAT") receivables of $9.0 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 5.1% (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. 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.

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 June 30, 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 June 30, 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. Stock based compensation:

During the six months ended June 30, 2014, the Company granted 3,170,000 stock options with a weighted average exercise price of $0.33. The stock options vest a third annually with the first tranche vesting immediately upon grant, and expire five years from the grant date. 738,331 stock options with a weighted average exercise price of $0.95 were forfeited. As at June 30, 2014, 32,138,335 stock options with a weighted average exercise price of $0.87 were outstanding.

Stock options granted during the period had a weighted average grant date fair value of $0.18 (2013: $0.31). The fair value of each option granted is estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life (2013 – 3.5 years); a 1% risk free interest rate (2013 – 1%); an 80% expected volatility (2013 – 80%); and a 10% expected forfeiture rate (2013 – 3%).

9. Income (loss) per share:

Basic per share amounts are calculated using 346,120,871 weighted average common shares for all periods. For the three and six-months ended June 30, 2014, nil and 1,144,897 stock options were included in the calculation of diluted weighted average common shares (2013 nil) and the remaining outstanding stock options were excluded from the calculation as inclusion would be anti-dilutive.

10. 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.

As at June 30, 2014, the remaining work program commitments through August 27, 2015 were US $9.7 million.

Sagiz oil terminal

The Company signed a letter of intent in 2012 to purchase a 90% interest in the Sagiz oil 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 US $2.5 million. The sellers are targeting commissioning of the terminal to coincide with the startup of commercial production on the Shoba field.