



Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2016

(unaudited)

Condor Petroleum Inc.

Consolidated Statements of Financial Position (unaudited)

Stated in thousands of Canadian dollars

As at		June 30, 2016	December 31, 2015
	Note		
Assets			
Cash and cash equivalents		36,981	50,282
Trade and other receivables		486	688
Other current assets		899	923
Total current assets		38,366	51,893
Exploration and evaluation assets	3	72,955	78,676
Property and equipment	4	13,792	2,939
Other long term assets	5	8,878	8,295
Total assets		133,991	141,803
Liabilities			
Accounts payable and accrued liabilities		1,164	3,962
Current portion of other long-term liabilities	6	470	395
Current portion of provisions		260	266
Total current liabilities		1,894	4,623
Other long term liabilities	6	2,879	3,105
Deferred tax liability	8	-	1,803
Provisions	7	2,862	1,686
Total liabilities		7,635	11,217
Equity			
Share capital	9	271,688	263,035
Contributed surplus		19,890	19,380
Translation reserve		(69,333)	(62,999)
Deficit		(95,889)	(88,830)
Total equity		126,356	130,586
Total liabilities and equity		133,991	141,803

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		Three months 2016	Three months 2015	Six months 2016	Six months 2015
	Note				
Revenue					
Crude oil sales		257	-	257	103
Total revenue		257	-	257	103
Expenses					
Production costs		93	-	93	567
Royalty expense		7	-	7	17
Transaction costs		134		1,509	
General and administrative		1,952	2,220	3,939	4,406
Depletion and depreciation		127	169	232	1,201
Stock based compensation	11	399	81	510	306
Total expenses		(2,712)	(2,470)	(6,290)	(6,497)
Finance income		178	194	309	383
Finance expense		(217)	(136)	(319)	(573)
Foreign exchange gain (loss)		(500)	(1,053)	(2,819)	4,471
Net loss before tax		(2,994)	(3,465)	(8,862)	(2,113)
Deferred tax recovery (expense)	8	-	984	1,803	(408)
Net loss		(2,994)	(2,481)	(7,059)	(2,521)
Foreign currency translation adjustment	12	997	(4,181)	(6,334)	5,022
Comprehensive income (loss)		(1,997)	(6,662)	(13,393)	2,501
Basic and diluted income (loss) per share					
Net loss per share	10	(0.07)	(0.07)	(0.18)	(0.07)

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

Condor Petroleum Inc.

Consolidated Statements of Cash Flows (unaudited)

Stated in thousands of Canadian dollars

For the period ended June 30		Three months 2016	Three months 2015	Six months 2016	Six months 2015
	Note				
Operating activities:					
Net loss		(2,994)	(2,481)	(7,059)	(2,521)
Items not affecting cash:					
Depletion and depreciation		127	169	232	1,201
Deferred tax expense (recovery)		-	(984)	(1,803)	408
Stock based compensation		364	81	475	306
Non-cash finance income		(101)	(136)	(191)	(265)
Non-cash finance expense		208	136	310	573
Unrealized exchange (gain) loss		(471)	1,062	2,763	(4,542)
Changes in non-cash working capital		(75)	(122)	13	(13)
Cash used in operating activities		(2,942)	(2,275)	(5,260)	(4,853)
Investing activities:					
Exploration and evaluation expenditures	3	(37)	(1,823)	(616)	(4,070)
Property and equipment expenditures	4	(2,046)	(32)	(2,067)	(170)
Changes in non-cash working capital		(1,348)	(982)	(2,605)	(5,927)
Cash used in investing activities		(3,431)	(2,837)	(5,288)	(10,167)
Change in cash		(6,373)	(5,112)	(10,548)	(15,020)
Effect of foreign exchange on cash		496	(1,325)	(2,753)	4,376
Cash and cash equivalents, beginning		42,858	60,271	50,282	64,478
Cash and cash equivalents, ending		36,981	53,834	36,981	53,834

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

Condor Petroleum Inc.

Consolidated Statements of Changes in Equity (Unaudited)

Stated in thousands of Canadian dollars

(except for number of common shares)

	Number of common shares ¹	Share capital	Contributed surplus	Translation reserve	Deficit	Total
As at December 31, 2014	34,612,087	263,035	18,429	(7,332)	(85,512)	188,620
Stock based compensation expense	-	-	306	-	-	306
Foreign currency translation adjustment	-	-	-	5,022	-	5,022
Net loss	-	-	-	-	(2,521)	(2,521)
As at June 30, 2015	34,612,087	263,035	18,735	(2,310)	(88,033)	191,427
Stock based compensation expense	-	-	645	-	-	645
Foreign currency translation adjustment	-	-	-	(60,689)	-	(60,689)
Net loss	-	-	-	-	(797)	(797)
As at December 31, 2015	34,612,087	263,035	19,380	(62,999)	(88,830)	130,586
Issued on business combination (Note 2)	8,653,013	8,653	-	-	-	8,653
Stock based compensation expense	-	-	510	-	-	510
Foreign currency translation adjustment	-	-	-	(6,334)	-	(6,334)
Net loss	-	-	-	-	(7,059)	(7,059)
As at June 30, 2016	43,265,100	271,688	19,890	(69,333)	(95,889)	126,356

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

¹ On March 24, 2016, the Company's shares were consolidated on a ten-to-one basis. The share consolidation has been applied retrospectively.

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

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") and the Republic of Turkey ("Turkey"). 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, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015 comprise the Company and its subsidiaries. The financial statements were approved and authorized for issue on August 12, 2016 by the Board of Directors.

Nature of operations

Condor has a 100% interest in and operates the Zharkamys West 1 territory ("Zharkamys") in western Kazakhstan. The Zharkamys contract with the Government of Kazakhstan is currently in the exploration period until December 14, 2016. Upon commercial discovery, the Company has the exclusive right to enter the development period by executing a development contract. The Company has commenced the process of applying for an extension to the exploration period.

Effective March 24, 2016, the Company acquired a 100% interest in and operates four production licenses located at Ortakoy in the Gallipoli Peninsula in Turkey. The four production licenses were converted in 2015 from an exploration license which had been originally awarded in 2004. The Poyraz Ridge production license was awarded for an initial eight year term and the Destan production license was awarded for an initial five year term and each of these licenses may be extended for up to twenty years including the initial term. The two other production licenses, H17 b1-1 and H17 a2-1, were each awarded for an initial four year term and, upon commercial discovery, may be extended for up to twenty years including the initial term.

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 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, 2015, 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, 2015 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. The Company's subsidiary in Netherlands, which has a branch in Turkey, has a Turkish Lira ("TRY") functional currency.

The financial statements have been prepared on the historical cost basis, except for acquired net assets as a result of business combinations, which are measured at fair value.

The Company uses the acquisition method to account for business combinations. Assets acquired and liabilities assumed in a business combination are recorded at fair value at the time of acquisition. The determination of fair value requires the Company to make estimates, assumptions and judgments that are subject to measurement uncertainty. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities, including the fair value of property and equipment, other long-term assets and provisions. Consequently, the purchase price allocation impacts the Company's reported assets and liabilities

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

and future net earnings, due to the impact on future depreciation and depletion expense as well as impairment tests.

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

There were no new or amended accounting standards or interpretations adopted during the three and six months ended June 30, 2016. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2015.

2. Business combination:

On January 7, 2016 the Company entered into an agreement with Marsa Energy Inc. ("Marsa") to acquire all of the issued and outstanding common shares of Marsa based on an exchange ratio of 1.84326 Condor common shares for each Marsa common share (the "Marsa Transaction"). On March 24, 2016 the Marsa Transaction was completed and Condor issued 8,653,013 common shares to the Marsa shareholders (Note 9). Based on the \$1.00 closing price of Condor common shares listed on the Toronto Stock Exchange on the completion date on the post share consolidation basis, the total purchase price for the Marsa Transaction is \$8,653,013. Marsa, through its subsidiaries, owns a 100% interest in the Ortakoy properties in Turkey.

The purchase price has been allocated to the fair value of the net assets acquired as follows (000's):

Other current assets	64
Property, plant and equipment	9,197
Other long term assets	890
Accounts payable and accrued liabilities	(306)
Provisions	(1,192)
Total net assets acquired	8,653

If the Marsa Transaction had been completed on January 1, 2016, the Company's revenues for the six months ended June 30, 2016, when combined with Marsa's revenues and not taking into consideration any combined synergies, would have remained the same at nil and net loss would have increased by \$0.5 million to \$7.5 million. This pro-forma information is not necessarily indicative of the results had the Marsa Transaction actually occurred on January 1, 2016.

The Company incurred \$1.5 million of transaction costs related to the Marsa Transaction.

3. Exploration and evaluation assets:

Exploration and evaluation assets comprise the Zharkamys property in Kazakhstan.

For the period ended (000's)	June 30, 2016	December 31, 2015
Cost		
Balance, beginning of period	82,962	126,004
Capital expenditures	616	11,850
Change in decommissioning provision and other	(32)	(45)
Foreign currency translation adjustment	(6,565)	(54,847)
Balance, end of period	76,981	82,962

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

Accumulated depletion		
Balance, beginning of period	(4,286)	(5,761)
Depletion	-	(932)
Foreign currency translation adjustment	260	2,407
Balance, end of period	(4,026)	(4,286)
Net book value, end of period	72,955	78,676

4. Property and equipment:

(000's)	Oil and gas properties	Other equipment	Total
Cost			
As at December 31, 2015	-	5,230	5,230
Acquisition of Ortakoy properties (Turkey)	8,842	355	9,197
Capital expenditures	-	2,067	2,067
Foreign currency translation adjustment	-	(410)	(410)
As at June 30, 2016	8,842	7,242	16,084
Accumulated depletion and depreciation			
As at December 31, 2015	-	(2,291)	(2,291)
Depletion and depreciation	-	(248)	(248)
Foreign currency translation adjustment	-	247	247
As at June 30, 2016	-	(2,292)	(2,292)
Net book value			
As at December 31, 2015	-	2,939	2,939
As at June 30, 2016	8,842	4,950	13,792

5. Other long term assets:

As at (000's)	June 30, 2016	December 31, 2015
Value added tax receivable	6,632	6,536
Non-current bank deposits	2,246	1,759
	8,878	8,295

The undiscounted value added tax ("VAT") receivables (including non-current and current portion) of \$7.5 million (December 31, 2015: \$7.7 million) are available for offset against VAT collected on future domestic sales and for refund related to future export sales. Additions to VAT receivables are discounted from the expected date of receipt using a discount rate of 10.3% (2015: 7.4%), which estimates the market rate of return on a similar instrument.

The non-current bank deposits including \$1.6 million in Kazakhstan and \$0.6 million in Turkey are invested in special interest bearing accounts and are reserved for settling future decommissioning obligations.

6. Other long term liabilities:

Other long term liabilities are amounts to be reimbursed to the Government of Kazakhstan for historical costs incurred in Zharkamys by the Government prior to the Company's acquisition of the Zharkamys exploration rights and include expenditures for drilling, seismic and other geological and geophysical works. The historical cost obligations are non-interest bearing and comprise United States dollar ("USD") denominated

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

liabilities of \$2.6 million related to the initial Zharkamys license acquisition and KZT denominated liabilities of \$2.3 million related to the Zharkamys territory expansion. The total undiscounted amount at June 30, 2016 of \$4.9 million (December 31, 2015: \$5.3 million) has been discounted to a value of \$3.3 million (December 31, 2015: \$3.5 million), of which \$0.5 million is current, based on the estimated timing of future payments and a weighted average 8% discount rate based on historical risk-free rates.

7. Provisions:

Provisions are comprised of decommissioning obligations, which are estimated based on the expected costs to abandon existing wells and facilities and to restore the existing sites in Kazakhstan, Turkey and Canada, along with the estimated timing of future payments. Non-current provisions related to Turkish properties in the amount of \$1.2 million were recognized upon acquisition (Note 2) and as at June 30, 2016 amounted to \$1.3 million. At June 30, 2016, the estimated total undiscounted cash flows required to settle the current and non-current liabilities are \$3.8 million (December 31, 2015: \$2.4 million), which are expected to be incurred between 2016 and 2034.

The calculation of the net present value of the decommissioning obligations included a weighted average inflation rate of 6.2% (December 31, 2015: 5.1%) and weighted average risk free rate associated with the assets of 8.0% (December 31, 2015: 7.1%).

8. Income taxes:

As of June 30, 2016 the Company recognized a deferred tax liability of nil (December 31, 2015: \$1.8 million). Deferred tax recovery of \$1.8 million for the period ended June 30, 2016 arose from the foreign currency translation adjustment on Condor's intercompany loans to foreign subsidiaries denominated in USD as well as foreign exchange losses on cash held in USD due to the depreciation of USD against CAD during the period.

9. 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. The outstanding Condor common shares were consolidated on a ten-to-one basis on March 24, 2016 and numbers of common shares have been adjusted retrospectively.

On March 24, 2016 the Marsa Transaction was completed and Condor issued 8,653,013 common shares to the Marsa shareholders (Note 2).

	Common shares
As at December 31, 2015	34,612,087
Marsa Transaction	8,653,013
As at June 30, 2016	43,265,100

10. Per share amounts:

Per share amounts are calculated using weighted average number of common shares of 39,271,416 as at June 30, 2016 and 34,612,087 as June 30, 2015. Outstanding stock options have been excluded from the calculations of diluted weighted average common shares as to include them would be anti-dilutive.

11. Stock based compensation:

As at June 30, 2016, the Company had 2,475,500 stock options outstanding with a weighted average exercise price of \$3.43 per share. The Company awarded 1,025,000 stock options on May 25, 2016 that have an exercise price of \$1.33 per share which are subject to shareholder approval and are not included in the number of stock options outstanding as of June 30, 2016. The existing shareholder approval of the stock

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

option plan expired on May 23, 2016 and the renewal of the stock option plan was approved by the shareholders during the annual general meeting of shareholders on June 23, 2016. Given the fact that options were awarded between the expiration and renewal dates of the shareholder approvals, the Company will need to obtain shareholder approval ratifying the grant at next year's shareholders' meeting in the second quarter of 2017. As employee services have commenced, the Company has recognized \$0.3 million in stock based compensation expense in the period ended June 30, 2016. Stock options awarded during the quarter had a fair value of \$1.0 million. The fair value of each option awarded is estimated using the Black-Scholes option pricing model assuming: a 3.5 year expected life; a 0.6% risk free interest rate; a 154% expected volatility, which has been based on historical share price volatility of the Company; 16% expected forfeiture rate; and weighted average share price of \$1.18.

12. Financial risk management:*Credit risk*

Trade and other receivables at June 30, 2016 include \$0.4 million of crude oil sales receivables (December 31, 2015: \$0.6 million), which are significantly past due and relate to sales from November 2014 to January 2015, which have not been fully collected to date. Due to disruptions in the local oil refining market during 2015, the refinery which accepted delivery of the Company's crude oil in late 2014 and early 2015 has had cash flow interruptions and has been unable to settle their trade payables on a timely basis. The Company has collected \$0.1 million of outstanding receivables in the six months ended June 30, 2016 and expects the remaining balance to be fully collected.

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

Foreign currency exchange risk

During the six months ended June 30, 2016, the CAD appreciated from 1.38 per 1.00 USD to 1.30, which led to a foreign exchange loss of (\$2.8) million (2015: gain of \$4.5 million) related to USD denominated cash and cash equivalents held by the Company.

During the six months ended June 30, 2016, the KZT depreciated from 245 per 1.00 CAD to 261 resulting in a (\$6.3) million translation loss adjustment through equity (2015: gain of \$5.0 million). The majority of this translation change was incurred on account of exploration and evaluation assets.

The Company is exposed to significant foreign currency risk as a substantial portion of the Company's foreign activities are transacted in or referenced to foreign currencies including USD, KZT and TRY, and a significant portion of the Company's cash and cash equivalents are held in USD.

A description of the nature and extent of other financial risks, including commodity prices, interest rates and liquidity risks arising from the Company's financial assets and liabilities can be found in the notes to the annual consolidated financial statements as at December 31, 2015. The Company's exposure to these risks has not changed significantly since December 31, 2015.

13. Commitments and contingent liabilities:*Kazakhstan work commitments*

The Company has contractual work commitments pursuant to the Zharkamys territory in Kazakhstan. These 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

Condor Petroleum Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and six months ended June 30, 2016

be significant. In addition, any exploration period extensions or subsequent development periods would likely carry additional work commitments, which could be significant. Non-fulfilment of work commitments in Kazakhstan could result in punitive actions by the Government of Kazakhstan including suspending or revoking of contracts. Financial work commitment shortfalls may be subject to penalties of 30% of the shortfall. The remaining Zharkamys work commitments as at June 30, 2016 and for the period until the expiry of the Zharkamys exploration license on December 14, 2016 amount to \$0.7 million.

Turkey work commitments

As at June 30, 2016 the Company has commitments to drill exploration wells during 2016-2017 on each of the H17 a2-1 and H17 b1-1 licenses in Turkey. The estimated cost is \$1.1 million per well and \$2.2 million in total. Failure to drill a commitment well within the required timeline on a production license could lead to the loss of that production license.

14. Segmented information:

Condor completed the Marsa Transaction and acquired a 100% interest in the Ortakoy properties in Turkey on March 24, 2016, as disclosed in Note 2. As of the effective date of the transaction, the Company has the following operating and reporting segments related to foreign subsidiaries and respective segmented information:

(000's)	Corporate	Kazakhstan	Turkey	Total
As at June 30, 2016				
Exploration and evaluation assets	-	72,955	-	72,955
Property and equipment	27	2,550	11,215	13,792
Total assets	35,405	85,524	13,062	133,991
Total liabilities	743	5,293	1,599	7,635
For the six months ended June 30, 2016				
Exploration and evaluation expenditures	-	616	-	616
Property and equipment expenditures	-	22	2,045	2,067
Total capital expenditures	-	638	2,045	2,683
<u>Revenue</u>				
Crude oil sales	-	257	-	257
<u>Expenses</u>				
Production costs	-	93	-	93
Royalty expense	-	7	-	7
Depletion and depreciation	9	204	19	232
Transaction costs	1,509	-	-	1,509
General and administrative	3,939	-	-	3,939
Stock based compensation	510	-	-	510
Finance income	(309)	-	-	(309)
Finance expense	319	-	-	319
Foreign exchange loss	2,819	-	-	2,819
Net loss for the period, before tax	8,796	47	19	8,862
Deferred tax expense (recovery)	(1,803)	-	-	(1,803)
Net loss for the period	6,993	47	19	7,059