Cappadocia, Turkey

# Condensed Interim Consolidated Financial Statements (unaudited)

## as at June 30, 2018 and for the three and six months ended June 30, 2018 and 2017

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valeura energy inc.

**Condensed Interim Consolidated Statements of Financial Position**

| (thousands of Canadian Dollars, unaudited) | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | **$ 55,945** | $ 11,108 |
| Accounts receivable | **5,997** | 4,052 |
| Prepaid expenses and deposits | **2,318** | 1,381 |
| Inventory | **218** | 251 |
| | **64,478** | 16,792 |
| License Deposit *(note 3)* | **144** | 164 |
| Restricted Cash *(note 3)* | **2,773** | 3,173 |
| Exploration and evaluation assets *(note 4)* | **7,087** | 7,642 |
| Property, plant and equipment *(note 5)* | **54,190** | 62,101 |
| | **$ 128,672** | $ 89,872 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **$ 4,182** | $ 13,371 |
| Decommissioning obligations *(note 6)* | **19,915** | 19,206 |
| Deferred taxes | **1,772** | 2,470 |
| Shareholders' Equity | | |
| Share capital *(note 7)* | **205,155** | 146,694 |
| Contributed surplus | **19,253** | 19,857 |
| Accumulated other comprehensive loss | **(38,223)** | (32,183) |
| Deficit | **(83,382)** | (79,543) |
| | **102,803** | 54,825 |
| | **$ 128,672** | $ 89,872 |

See accompanying notes to the condensed interim consolidated financial statements

See Commitment *(note 12)*

valeura energy inc.

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
**For the three and six months ended June 30, 2018 and 2017**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (thousands of Canadian Dollars, except share and per share amounts, unaudited) | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| **Revenue *(note 8)*** | | | | |
| Petroleum and natural gas sales | **$ 2,949** | $ 3,764 | **$ 6,418** | $ 6,852 |
| Royalties | **(396)** | (527) | **(856)** | (926) |
| Other Income | **496** | 376 | **861** | 711 |
| | **3,049** | 3,613 | **6,423** | 6,637 |
| **Expenses and other items** | | | | |
| Production | **1,045** | 1,334 | **2,094** | 1,943 |
| General and administrative | **1,406** | 1,340 | **2,741** | 2,996 |
| Transaction Costs | **-** | 48 | **287** | 966 |
| Accretion on decommissioning liabilities | **404** | 523 | **925** | 805 |
| Foreign exchange loss (gain) | **(265)** | 266 | **(50)** | 1,220 |
| Share-based compensation | **374** | 96 | **550** | 192 |
| Depletion and depreciation *(note 5)* | **1,843** | 2,265 | **3,866** | 4,163 |
| | **4,807** | 5,872 | **10,413** | 12,285 |
| Loss for the period before income taxes | **(1,758)** | (2,259) | **(3,990)** | (5,648) |
| Income taxes | | | | |
| Current tax expense (recovery) | **115** | (255) | **198** | 865 |
| Deferred tax recovery | **(469)** | (1,478) | **(349)** | (3,986) |
| **Net loss** | **(1,404)** | (526) | **(3,839)** | (2,527) |
| Other comprehensive gain (loss) | | | | |
| Currency translation adjustments | **(5,260)** | 945 | **(6,040)** | (733) |
| **Comprehensive income (loss)** | **$ (6,664)** | $ 419 | **$ (9,879)** | $ (3,260) |
| Net loss per share | | | | |
| Basic and diluted | **$ (0.02)** | $ (0.01) | **$ (0.05)** | $ (0.04) |
| Weighted average number of shares outstanding (thousands) | **85,608** | 73,148 | **81,681** | 68,703 |

See accompanying notes to the condensed interim consolidated financial statements

**Condensed Interim Consolidated Statements of Cash Flows**
**For the three and six months ended June 30, 2018 and 2017**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (thousands of Canadian Dollars, unaudited) | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| Cash was provided by (used in): | | | | |
| **Operating activities:** | | | | |
| Net loss for the period | **$ (1,404)** | $ (526) | **$ (3,839)** | $ (2,527) |
| Depletion and depreciation | **1,843** | 2,265 | **3,866** | 4,163 |
| Share-based compensation | **374** | 96 | **550** | 192 |
| Accretion on decommissioning liabilities *(note 6)* | **404** | 523 | **925** | 805 |
| Unrealized foreign exchange loss (gain) | **(287)** | 79 | **(147)** | (571) |
| Deferred tax recovery | **(469)** | (1,478) | **(349)** | (3,986) |
| Decommissioning costs incurred | **(17)** | (11) | **(42)** | (14) |
| Change in non-cash working capital *(note 10)* | **(891)** | (2,076) | **(5,346)** | 1,251 |
| Cash provided by (used in) operating activities | **(447)** | (1,128) | **(4,382)** | (687) |
| **Financing activities:** | | | | |
| Share issuance | **-** | - | **60,004** | 10,972 |
| Proceeds from stock options exercised | **1,816** | - | **1,816** | - |
| Share issuance costs | **6** | (2) | **(4,596)** | (864) |
| Cash provided by (used in) financing activities | **1,822** | (2) | **57,224** | 10,108 |
| **Investing activities:** | | | | |
| TBNG Acquisition cash purchase price | **-** | - | **-** | (21,450) |
| West Thrace Deep Rights Sale | **-** | 3,973 | **-** | 18,841 |
| Equinor Farm-in proceeds | **-** | - | **-** | 7,447 |
| Exploration and evaluation expenditures *(note 4)* | **(1,323)** | (2,147) | **(1,616)** | (2,488) |
| Property and equipment expenditures *(note 5)* | **195** | (1,864) | **(386)** | (3,455) |
| Change in restricted cash | **309** | (207) | **400** | (3,600) |
| Change in non-cash working capital *(note 10)* | **(1,954)** | 5,490 | **(6,926)** | 1,955 |
| Cash provided by (used in) investing activities | **(2,773)** | 5,245 | **(8,528)** | (2,750) |
| Foreign exchange gain (loss) on cash held in foreign currencies | **444** | 28 | **523** | 1,245 |
| | | | | |
| **Net change in cash** | **(954)** | 4,143 | **44,837** | 7,916 |
| **Cash, beginning of period** | **56,899** | 5,760 | **11,108** | 1,987 |
| **Cash, end of period** | **$ 55,945** | $ 9,903 | **$ 55,945** | $ 9,903 |

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**
**For the six months ended June 30, 2018 and 2017**

| (thousands of Canadian Dollars and thousands of shares or warrants, unaudited) | Number of Shares | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comp. Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2018 | 73,148 | $ 146,694 | $ 19,857 | $ (79,543) | $ (32,183) | $ 54,825 |
| Net loss for the period | - | - | - | (3,839) | - | (3,839) |
| Shares issued | 12,989 | 63,057 | (1,237) | - | - | 61,820 |
| Share Issuance Costs | - | (4,596) | - | - | - | (4,596) |
| Currency translation adjustments | - | - | - | - | (6,040) | - (6,040) |
| Share-based compensation | - | - | 633 | - | - | 633 |
| **June 30, 2018** | **86,137** | **$ 205,155** | **$ 19,253** | **$ (83,382)** | **$ (38,223)** | **$ 102,803** |

| (thousands of Canadian Dollars and thousands of shares or warrants, unaudited) | Number of Shares | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comp. Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2017 | 58,519 | $ 136,586 | $ 19,343 | $ (71,159) | $ (26,164) | $ 58,606 |
| Net loss for the period | - | - | - | (2,527) | - | (2,527) |
| Shares issued | 14,629 | 10,972 | - | - | - | 10,972 |
| Share Issuance Costs | - | (864) | - | - | - | (864) |
| Currency translation adjustments | - | - | - | - | (733) | (733) |
| Share-based compensation | - | - | 215 | - | - | 215 |
| **June 30, 2017** | **73,148** | **$ 146,694** | **$ 19,558** | **$ (73,686)** | **$ (26,897)** | **$ 65,669** |

See accompanying notes to the condensed interim consolidated financial statements

## 1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands, British Virgin Islands and Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. Valeura's head office address is 1200, 202 – 6th Avenue SW, Calgary, AB.

## 2. Basis of Preparation

### (a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's audited consolidated financial statements for the year ended December 31, 2017, with the exception as noted below of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted in the interim statements, in addition to the adoption of IFRS 15 – Revenue from contracts with customers and IFRS 9 – Financial Instruments. The attached unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2017.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. The use of estimates and judgements is also consistent with the December 31, 2017 financial statements.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 8, 2018.

### (b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2017 audited consolidated financial statements.

The Company's unaudited condensed interim consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in thousands of Canadian Dollars, unless otherwise stated.

### (c) Functional and presentation currency

The unaudited condensed interim consolidated financial statements are presented in Canadian Dollars which is Valeura's reporting currency. Valeura's foreign subsidiaries transact in currencies other than the Canadian Dollar and have a Turkish Lira functional currency. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in Other Comprehensive

Income or loss ("OCI") and are held within Accumulated Other Comprehensive Income or loss ("AOCI") until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in net earnings.

**(d) Changes in Significant Accounting Policies**

(i) IFRS 15 Revenue from Contracts with Customers

Valeura adopted the new standard on January 1, 2018 on a retrospective basis. The standard requires enhanced disclosure of revenue from contracts with customers as detailed in Note 8, including categories that depict the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Valeura management reviewed its revenue streams and major contracts with customers and concluded that there were no material impacts on the Company's revenues or cash flows for the period as a result of adopting the new standard.

The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is to be recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and timing of the revenue recognized. The new standard applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts.

Valeura's petroleum and natural gas revenues from the sale of natural gas and crude oil are based on the consideration specified in the contracts with customers. For natural gas, pricing is linked to BOTAS benchmark pricing, while crude oil pricing is linked to Brent benchmark pricing. Valeura recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer and collection is reasonably assured.

Valeura evaluates its arrangements with third parties and partners to determine if Valeura is acting as the principal or as the agent. Valeura is considered the principal in a transaction when it has primary responsibility for the transaction. If Valeura acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any realized by Valeura from the transaction.

(ii) IFRS 9 Financial Instruments

IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting, which is more in line with risk management activities. IFRS 9 has been adopted on a retrospective basis by Valeura on January 1, 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

Under IFRS 9, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risks is recorded through other comprehensive income or loss rather than net income or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and the characteristics of its contractual cash flows.

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions: a) the asset is held with a business model whose objective is to hold assets to collect contractual cash flows; and b) the contractual terms of the financial assets give rise to cash flows on specified dates that are solely payments of principal and interest on principal amounts outstanding.

Financial assets that meet criteria (b) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at FVOCI. All other financial assets and liabilities are subsequently measure at FVTPL. There was no change to the measurement categories of financial liabilities.

Accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities continue to be measured at amortized cost and are now classified as "amortized cost".

Valeura does not currently have financial instrument contracts to which it applies hedge accounting.

**(e) Recent accounting standards and interpretations**

The International Accounting Standards Board ("IASB") released the following new standards:

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will be applied by Valeura on January 1, 2019 and the Company is currently in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The extent of the impact of the adoption of the standard has not yet been determined.

**(f) Turkish Operational Update**

Turkey has gone through a period in 2016 and 2017 of political change and uncertainty. This has continued in 2018, and the company is monitoring the situation after presidential elections were held in June 2018, resulting in President Erdogan remaining in office. The government is also moving ahead with constitutional changes supported by a referendum in 2017. During this period, the Company's ability to conduct drilling and production operations in the Thrace Basin has not been adversely affected by political or regulatory events. No unusual delays or security issues have been experienced and the Company continues to maintain a professional working relationship with local authorities and regulators. The main impact on Valeura during this period has been the continued devaluation of the Turkish Lira.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The ability to make reliable estimates is further complicated when the political, economic and security situation is uncertain. Management has based its estimates with respect to the Company's operations in Turkey based on information available up to the date these condensed interim consolidated financial statements were approved by the Board of Directors. The situation in Turkey remains uncertain and significant changes could occur which could materially impact the assumptions and estimates made in these condensed interim consolidated financial statements. Changes in assumptions are recognized in the financial statements prospectively.

**3. Restricted Cash and Licence Deposits**

The Company has restricted cash in the amount of $2.8 million (December 31, 2017 - $3.2 million) that is securing licence deposits with the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA"), and a further $0.14 million (December 31, 2017 - $0.2 million) on deposit with the GDPA. This restricted cash and deposit is security for decommissioning or abandonment obligations and ongoing work programs on the Company's Turkish licences. These deposits and restricted cash equal the amount to satisfy the underlying commitments with the GDPA and there are no other outstanding commitments. As the expected abandonment date and work programs for these assets is more than one year from June 30, 2018, this restricted cash and deposit have been classified as non-current in the Company's financial statements.

Effective June 22, 2018, the company has available an Account Performance Security Guarantee ("ASPG") from Export Development Canada ("EDC"). The ASPG, which was issued to National Bank of Canada ("NBC") allows the Company to use the ASPG as collateral for certain letters of credit issued by NBC. The facility is effective from May 16, 2018 to May 31, 2019 with a limit of US$ 2.5 million, and can be renewed on an annual basis. The Company intends to use letters of credit issued by NBC under the ASPG to replace restricted cash collateral.

## 4. Exploration and Evaluation Assets

| Cost | Total |
|---|---|
| Balance, December 31, 2017 | $ 7,642 |
| Additions | 1,616 |
| Transfer to Property, Plant and Equipment | (752) |
| Capitalized share-based compensation | 27 |
| Effects of movements in exchange rates | (1,446) |
| **Balance, June 30, 2018** | **$ 7,087** |

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period.

In circumstances where the Company has entered into farm-in arrangements whereby the farm-in partner ("partner") will earn a working interest on certain properties through payment of a pre-determined portion of the costs of exploration or development activities, Valeura recognizes a disposal of the partner's working interest once the commitment has been met and the difference between the proceeds received and the carrying amount of the asset are recognized as a gain or loss in earnings for Property, Plant and Equipment assets and as a reduction of Exploration and Evaluation Assets for instances where the farm in is on undeveloped land. Under this IFRS accounting policy, the entire proceeds of the Banarli Farm-in were accounted for as a reduction of Exploration and Evaluation Assets in 2017.

## 5. Property, Plant and Equipment

| Cost | Total |
|---|---|
| Balance, December 31, 2017 | $ 106,777 |
| Additions | 386 |
| Transfer from Exploration and Evaluation Assets | 752 |
| Change in decommissioning liabilities *(note 6)* | 2,005 |
| Effects of movements in exchange rates | (13,266) |
| **Balance, June 30, 2018** | **$ 96,654** |

| Accumulated depletion and depreciation | Total |
|---|---|
| Balance, December 31, 2017 | $ 44,676 |
| Depletion and depreciation expense | 3,866 |
| Effects of movements in exchange rates | (6,078) |
| **Balance, June 30, 2018** | **$ 42,464** |

| Net book value | Total |
|---|---|
| Balance, December 31, 2017 | $ 62,101 |
| **Balance, June 30, 2018** | **$ 54,190** |

### (a) Impairment assessment

IFRS requires an impairment test to assess the recoverable value of PP&E within each Cash Generating Unit ("CGU" or CGUs") upon initial adoption and, subsequently whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell.

As at June 30, 2018, the Company conducted an assessment of impairment triggers for the Company's CGUs. The triggers assessed included market capitalization compared to net assets, any changes to year-end commodity price forecasts, and the Company's drilling success during the quarter. After assessing these impairment triggers the Company concluded that there were no indicators of impairment on its PP&E assets.

**(b) Contingencies**

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

**(c) Depletion - future development costs**

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of $152 million (December 31, 2017 – $143.8 million) associated with development of the Company's proved plus probable reserves.

The ultimate recovery of property, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

## 6. Decommissioning Obligations

| | June 30, 2018 |
|---|---|
| Decommissioning obligations, beginning of year | $ 19,206 |
| Obligations incurred | 142 |
| Obligations settled | (42) |
| Change in estimates | 1,863 |
| Accretion of decommissioning obligations | 925 |
| Effects of movements in exchange rates | (2,179) |
| **Balance, June 30, 2018** | **$ 19,915** |

The change in estimates of $1.9 million is a result of a change in the inflation rate as reported by the Turkish Central Bank to 15.39% at June 30, 2018 (11.9% at December 31, 2017) and a change in the foreign exchange rate from USD to Turkish Lira as reporting by the Turkish Central Bank to 4.61 (3.77 at December 31, 2017).

## 7. Share Capital

On February 8, 2018, the Company entered into an agreement with a syndicate of underwriters pursuant to which the Company agreed to sell and the underwriters agreed to purchase on a bought deal basis 10,527,000 common shares of the Company at a price of $5.70 per common share, for total gross proceeds of approximately $60.0 million (the "Offering"). The Offering closed on March 1, 2018. Net proceeds were approximately $55.4 million after underwriters' fees of approximately $3.6 million and other expenses of $1.0 million.

**(a) Issued**

| Common shares | Number of Shares | Amount |
|---|---|---|
| Balance, December 31, 2017 | 73,148,321 | $ 146,694 |
| Shares issued pursuant to equity financing, net of share issue costs | 10,527,000 | 55,409 |
| Shares issued pursuant to stock option exercises | 2,461,667 | 3,052 |
| **Balance, June 30, 2018** | **86,136,988** | **$ 205,155** |

**(b) Per share amounts**

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months and six months ended June 30, 2018 is 85,608,412 and 81,681,140 respectively (June 30, 2017 - 73,148,321 and 68,703,044, respectively). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

**(c) Stock options**

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years.

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

| | Number of Options | Weighted average exercise price |
|---|---|---|
| Balance outstanding, December 31, 2017 | 6,370,500 | $ 0.73 |
| Granted | 1,077,500 | 4.62 |
| Exercised | (2,461,667) | 0.74 |
| Forfeited | (140,001) | 0.74 |
| **Balance outstanding, June 30, 2018** | **4,846,332** | **$ 1.59** |
| **Exercisable at June 30, 2018** | **2,568,839** | **$ 0.71** |

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2018:

| Exercise prices | Outstanding at June 30, 2018 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at June 30, 2018 | Weighted average exercise price |
|---|---|---|---|---|---|
| $0.57 - $0.66 | 1,285,500 | 3.30 | $ 0.60 | 1,285,500 | $ 0.60 |
| $0.67 - $0.74 | 879,999 | 5.49 | 0.72 | 336,669 | 0.72 |
| $0.75 - $0.90 | 1,173,333 | 5.47 | 0.76 | 516,670 | 0.75 |
| $0.91 - $4.62 | 1,507,500 | 5.32 | 3.59 | 430,000 | 1.00 |
| | 4,846,332 | 4.85 | $ 1.59 | 2,568,839 | $ 0.71 |

The fair value, at the grant date during the year, of the stock options issued was estimated using the Black-Scholes model with the following weighted average inputs:

| Assumptions | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Risk free interest rate (%) | **2.1** | 1.0 |
| Expected life (years) | **4.5** | 4.5 |
| Expected volatility (%) | **83.7** | 77.4 |
| Forfeiture rate (%) | **3.7** | 3.7 |
| Weighted average fair value per option | **$ 2.96** | $ 0.45 |

**8. Revenue**

The Company sells its production pursuant to fixed price sales contracts in the country of Turkey, in which natural gas prices for all of the Company's production are linked to the BOTAS benchmark price in TL. Tracking of the BOTAS price,

converted to US$, suggests that the price trends similar are to the EU natural gas price. This is not unexpected, as the gas sources are similar for both BOTAS and the EU.

Under the contracts, the Company is required to deliver a variable volume of natural gas to the contract counter party. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production or the customer's demand for natural gas, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result none of the variable revenue is considered constrained.

The Company's contracts have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected between the 12$^{th}$ and 25$^{th}$ day of the month following production.

The Company produces a small amount of crude oil that is sold on a spot basis as volumes warrant. Oil is delivered by truck to customers and revenue is recognized in the period in which the delivery occurs.

In addition to selling natural gas that the Company produces, the Company sells natural gas that it purchases from other producers in the area. This purchased natural gas is sold to the same customers, using the same contracts, through the same distribution network as natural gas the Company produces. The Company purchases natural gas from other producers under contracts that are typically one year or less in length at a discount of between 12.5% and 15% to the BOTAS price. These contracts require the Company to deliver the purchased natural gas to customers. The Company does not have the right, nor the ability, to store the purchased natural gas. Since the Company does not have the ability to influence the decision making process for the purchased natural gas volumes or the discretion to set prices, does not experience any inventory risk, does not perform any processing of the product and does not remit royalties to the Turkish government for the product, it considers itself an agent in these transactions. Revenue for this purchased gas is included net of purchase cost in Other income.

All of the Company's natural gas is sold in Turkey, in the Thrace Basin, which is the same area in which it is produced.

| | Three Months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Natural Gas | $ 2,872 | $ 6,232 |
| Crude Oil | 77 | 186 |
| **Petroleum and natural gas sales** | **$ 2,949** | **$ 6,418** |

| | Three Months ended June 30,018 | Six months ended June 30, 2018 |
|---|---|---|
| Royalties – Natural Gas | $ 359 | $ 779 |
| Crude Oil | 11 | 16 |
| Gross overriding royalty | 26 | 61 |
| **Royalties** | **$ 396** | **$ 856** |

| | Three Months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Third party natural gas sales net of costs | $ 215 | $ 430 |
| Interest and other revenue | 281 | 431 |
| **Other income** | **$ 496** | **$ 861** |

## 9. Credit Facilities

The Company has a general credit facility in the amount of US$0.3 million with a Turkish bank for the purpose of obtaining letters of credit required by the Turkish government. As at June 30, 2018, the Company has issued letters of credit totaling US$0.04 million (December 31, 2017 – US$0.04 million). The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set as the purpose of this facility is for issuance of letters of credit only.

The company also has available an ASPG from Export Development Canada which became effective June 22, 2018, as described in Note 3 – Restricted cash. As at June 30, 2018 no letters of credit were issued under this facility.

## 10. Supplemental Cash Flow Information

| | Three Months ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| Change in non-cash working capital: | | | | |
| Accounts receivable | **$ (235)** | $ 1,214 | **$ (1,891)** | $ (3,061) |
| Prepaid expenses and deposits | **(822)** | 365 | **(917)** | (384) |
| Inventory | **28** | - | **33** | - |
| Accounts payable and accrued liabilities | **(1,620)** | 1,493 | **(9,189)** | 7,271 |
| TBNG Acquisition | **-** | - | **-** | (2,441) |
| Movements in exchange rates | **(196)** | 342 | **(308)** | 1,821 |
| | **$ (2,845)** | 3,414 | **$ (12,272)** | 3,206 |
| The change in non-cash working capital has been allocated to the following activities: | | | | |
| Operating | **(891)** | (2,076) | **(5,346)** | 1,251 |
| Investing | **(1,954)** | 5,490 | **(6,926)** | 1,955 |
| | **$ (2,845)** | $ 3,414 | **$ (12,272)** | $ 3,206 |

## 11. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk is as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Joint venture receivable from partners | $ 2,287 | $ 195 |
| Revenue receivable from customers | 2,867 | 2,828 |
| VAT receivable | 843 | 1,029 |
| **Accounts receivable** | **$ 5,997** | **$ 4,052** |

*Trade and other receivables:*

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures.

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can cash call for major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

**(b) Market risk**

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

*Foreign currency exchange rate risk:*

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's petroleum and natural gas sales are conducted in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira (TL) to Canadian Dollar (CAD) and United States Dollar (USD) exchange rates. A decrease in the value of the Turkish Lira against the Canadian or United States Dollars will result in a decrease in revenues, royalty expense and operating costs. Correspondingly, an increase in the value of the Turkish Lira against the Canadian and United States Dollars will result in an increase in revenues, royalty expense and operating costs.

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in US Dollars. Material changes in the value of the US Dollar against the Turkish Lira or Canadian Dollar will impact the Company's capital costs.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three months and six months ended June 30, 2018:

| +/- 1 percent change in realized TL/CAD exchange rate | Petroleum and natural gas revenues | Royalties | Production costs |
|---|---|---|---|
| Three months ended June 30, 2018 | $ 32 | $ 4 | $ 11 |
| Six months ended June 30, 2018 | $ 68 | $ 8 | $ 21 |

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in US Dollars.

Material changes in the value of the US Dollar against the Turkish Lira or Canadian Dollar will impact the Company's capital costs.

Changes to the TL/USD exchange rate, which are impacted by the TL/CAD exchange rate upon conversion to the Company's Canadian Dollar presentation currency, would have had the following impact on capital expenditures for the three months and six months ended June 30, 2018:

| +/- 1 percent change in realized TL/USD exchange rate, upon conversion to presentation currency | Capital expenditures |
|---|---|
| Three months ended June 30, 2018 | $ 9 |
| Six months ended June 30, 2018 | $ 12 |

*Interest rate risk:*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it has no debt.

*Commodity price risk:*

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian Dollar and Turkish Lira, the Canadian Dollar and United States Dollar, global economic events and Turkish government policies.

*Liquidity risk:*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash which is used to finance all operating and capital expenditures.

*Capital management:*

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available include working capital and funds flow from operations.

The Company's capital expenditure includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not currently subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur in 2019, upon drilling & completion success at Yamalik 1, if Equinor (name changed from Statoil in May 2018) elects to complete Phase 3 under the Banarli Farm-in and thereby earns a 50 percent working interest in the deep rights at Banarli. At that point, Equinor may exercise its option under the Banarli Farm-in to take operatorship of the deep rights and propose a more significant drilling program including a more extensive pilot project, for which the Company would have to contribute its 50 percent participating interest. The Company has received net proceeds of $55.4 million in an equity offering in order to meet commitments for a delineation well capital program. If this were the case, the Company will be required to assess alternatives including the availability of equity and debt capital to fund the program.

The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through operations, bank financing, equity offerings or other sources and there are no assurances that such funding will be available when needed. Failure to obtain such funding on a timely basis could cause the Company to reduce capital

spending and could lead to the loss of exploration licences due to failure to meet drilling deadlines, lower production volumes and associated revenues or default under the Company's joint operating agreements.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. In the future, if the Company establishes and borrows on a bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

**12. Commitment**

On August 1, 2016 the Company renegotiated its existing office space sublease in Calgary that was originally signed on June 15, 2015. The term of this sublease runs through January 30, 2019. The Company has the option to terminate the sublease agreement after 18 months. The remaining amount committed under this renegotiated sublease is approximately $0.2 million including an estimate for operating costs. At June 30, 2018 the remaining commitment of $0.2 million will be discharged in the following years: 2018 – $0.2 million, 2019 – $nominal.