



Fourth Quarter 2017 Results and 2018 Outlook Conference Call

TRANSCRIPT

Calgary, March 22, 2018: The following is a transcript of the Valeura Energy Inc. Fourth Quarter 2017 Results and 2018 Outlook Conference Call, recorded at 9:30 AM MST on March 22, 2018.

PRESENTATION

Corporate participants

Sean Guest

Valeura Energy Inc. — President & Chief Executive Officer

Steve Bjornson

Valeura Energy Inc. — Chief Financial Officer

Robin Martin

Valeura Energy Inc. — Investor Relations Manager

Operator

Good morning. My name is Julianne, (phon) and I will be your conference Operator today. At this time, I would like to welcome everyone to the Valeura Energy Fourth Quarter 2017 Results and 2018 Outlook Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question at this time, please press *, followed by the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

Thank you. Sean Guest, President and Chief Executive Officer, you may begin your conference.

Sean Guest — President & Chief Executive Officer, Valeura Energy Inc.

Thank you, Julianne. Now, ladies and gentlemen, welcome to Valeura Energy's fourth quarter and year-end results conference call for the period ending December 31, 2017. My name is Sean Guest. I'm the President and CEO of Valeura, and joining me on the call today are Steve Bjornson, our CFO, and Robin Martin, Investment Relations Manager.

Before getting started, I'd like to draw your attention to our oil and gas advisories, which are provided in our quarterly reporting materials. In particular, please take note of the cautionary statements regarding forward-looking information and non-GAAP measures used in this discussion.

While much of the information we released this week is related to our 2017 annual results and financial reporting, today I'd very much like to focus on our deep unconventional plan and the future program.

We, of course, welcome questions about the financials either today or feel free to contact Steve or myself offline.

So for the format this morning, I'll take a few minutes at the beginning to discuss key highlights of 2017, and then Steve will give a brief financial summary. After that, I'd like to take you through really what is the unconventional play that we're talking about that we've discovered in Turkey. How confident are we that it's there and that this is commercial? Where are we at in that level of maturation? What is the forward program? And, specifically, what is the timeline for the activity in that forward program? And then really, I'll conclude with some discussion on Turkey.

I'm not going to specifically use our corporate deck from our website, but if you have it open, I can point to a couple of slides that may help as we go through the discussion.

So first, briefly looking back at 2017. Q1 2017 was very much commercially focused as the Company closed a number of transactions. It positioned Valeura as operator across its key gas and production and exploration assets and brought in Statoil as a partner to fund the exploration of the deep potential.

In brief summary, Valeura purchased TransAtlantic's 40 percent working interest across its Thrace Basin Natural Gas lands and then onsold just the deep rights in part of the TBNG lands to Statoil. Essentially, the cash we received from Statoil funded the TBNG acquisition.

Statoil then farmed into the deep rights in our Banarli blocks, and that really provided us with the funding for the go-forward work program in the exploration front.

So in the end, at the end of Q1, Valeura ended up with operatorship and control of its asset; very high working interest in the shallow, which included our production, so we were either 100 percent or 81.5 percent in the shallow; and a fully funded exploration program to test the significant upside in the deep.

So having closed those deals in Q1, we quickly moved to drilling the deep potential in spite of the Yamalik-1 exploration oil in May. The well was the first one in this basin specifically designed to test what Valeura had identified as a potential unconventional basin centre gas accumulation.

As reported in July, the well found almost 1,300 metres of gross, highly overpressured, gas-saturated reservoir, and the well actually had to stop drilling while still in this overpressured gas column.

In Q4, we completed four separate production tests in the well, which yielded an aggregate flow rate of 2.9 million SCF a day and with that a lot of condensate. Each test was preceded by a two-stage slick-water frac. So again, this well was designed as an exploration well, and the information we were looking for really was really to test how different zones within the well would produce.

So what I can say is the well exceeded both our and Statoil's expectations and demonstrated the presence of a deep unconventional play. And I'll get into more detail on that later in the call.

So subsequent to the discovery, we brought in our reserves auditors, D&M from Dallas, Texas, to look at the results at Yamalik, the other key wells across the basin. Their report indicated 10.1 Tcf of unrisks, mean recoverable natural gas that's working interest to Valeura, and that equated to 5.2 Tcf of risks mean resources.

So given these results and the huge upside potential, Valeura has been adjusting our strategy in capital allocation to focus on the extent of this play, both vertically and laterally, and determining what sort of production profile we can expect from this reservoir.

It's an exciting time as we work toward maturing this play, but before I get into too much detail, I'm going to hand over to Steve, just to summarize the financial highlights. Steve?

Steve Bjornson — Chief Financial Officer, Valeura Energy Inc.

Yeah. Thanks, Sean, and hi, everyone. The biggest financing news for the Company came after year-end. As of March 1st, we announced closing of a 60 million bought deal financing. This deal came together very quickly and showed us there's strong demand for new Valeura shares.

I believe that partly reflects a better investor sentiment towards the sector in general, obviously coupled with our very positive results out of the BCGA play. So the money's in the bank and ensures that we are fully funded for 2019 and the Company has no debt.

The Company's working capital position has grown now from year-end 2017 surplus of 3.4 million to approximately 59 million. When we look back at 2017, there were a number of transactions that provided tremendous strategic benefit. On the one hand, there's the acquisition of TBNG for 21.5 million, which increased our working interest and provided us operatorship and control of wells and facilities on the Thrace Basin lands.

In conjunction with the acquisition, Valeura received 26.3 million from Statoil, and that's comprising the farming proceeds and the sale of 50 percent of the deep rights in the West Thrace lands. So all of this is part of a strategy to ensure that we're properly positioned for the deep exploration program with a strategic partner in Statoil.

So I'll just make a brief comment on natural gas pricing. The natural gas reference price in Turkey was increased effective January 1, 2018 by 13 percent, resulting in gas prices estimated for Q1 2018 in excess of 720 per Mcf. This price increase will help offset recent devaluation in the Turkish lira and boost the economics of future drilling. So, thanks.

With that, I'll hand it back to Sean.

Sean Guest

Thanks, Steve. Maybe as a geologist, I sometimes look at these financial matters a little too simply, but my two key takeaways on our financials are Valeura has all the cash in the bank that it needs to fully fund our appraisal program of the deep unconventional play through 2018 and 2019, and we operate a shallow gas business that, in 2018, will continue to be cash flow positive.

So with those notes, I'm really going to move on now to discuss the deep unconventional play. And I apologize if I maybe at times go into some technical detail, but again, as a geologist, maybe I get a bit too passionate about it.

But first of all, we've used this term a lot of a basin centre gas accumulation. What is it? Really all that we're talking about here is this is a form of an unconventional play. Valeura has not discovered anything new. These are not rare. In fact, 15 percent of US production is from basin centre gas accumulation. So what we're talking about is about 4 Tcf a year of gas being produced from these in North America.

This is not a shale. The gas that we're talking about is actually trapped in what we effectively call reservoir rocks or sandstones. And really what's happening here is that as you bury these reservoirs deeper in the earth the rock gets tighter and tighter. The permeability is lower. And it gets to the point that the gas can't actually flow naturally through the rock. It gets trapped in the rock itself.

So you can imagine as you get down deep and you continue to generate gas in these rocks, and it can't escape, you increase the pressure, and you increase the amount of gas in the rock. And that's really what we're talking about here.

But the important thing about these is because they're unconventional plays, you don't require a structural trapping mechanism. If you find these, the gas tends to be pervasive across the basin in these type of formations. You may get sweet spots and that in different areas, but it's this point that the gas is pervasive and that's what generates the massive volume potential.

Now, what's the evidence? People have said to us, we have a single well there. What's really your evidence that you have a basin centre gas accumulation? So what I can say is based on the data that we have around this basin, I am extremely confident that wherever we drill in the basin, as we've shown kind of on Slide 10 in our map there, we're going to find a highly overpressured gas column.

It's not just Yamalik that is seeing this. There are hundreds of wells have been drilled in the Thrace Basin over the past decades, and we have eight wells immediately in our area, which all see this deep overpressured gas as they go further down into the stratigraphy. And they're kind of noted on that slide with the purple highlight there.

I'll even add that last year, we were drilling a shallow well right in the west of this basin, pretty well as far west as we can go over there. And this well, we had to stop drilling at 2,200 metres because the pressures built up so quickly, and we were taking gas kicks.

So this is not proof that there is a basin centre gas accumulation there, but there is strong evidence that exists all around there. And this isn't just my confidence, but it's also with D&M, our reserves auditor, who put a 70 percent chance that if you drill anywhere in that basin, you will encounter this overpressured gas column.

So we have the evidence that we'll find overpressured gas, and really the next question we're getting from people is okay, how commercial is this? Can you develop this? What amount of money are you going to make? And there are two aspects that come into this. One of them is the subsurface. How are the rocks going to perform and what type of drilling we'll use to maximize that production? And the other one is, obviously, the fiscal terms and the economics in the gas price.

Well, after we drilled the Yamalik and released the results, people were coming with okay, can you send me your type curve. What is your well going to produce like over time? Let me generate a cash flow. What we can say is we're not at that stage with this basin. This is really the well number one that has looked at targeting this. Really, where we have to go now is looking at analogues that we believe have similar properties.

And we have done this work with both ourselves and our partner, Statoil, to look at a number of these North American basins to look for the ones that are at a similar depth, a similar level of overpressure, they have similar rock properties based on coring and testing, to try and understand how they would perform. And a couple of the good analogues that we believe are the Granite Wash play in the Anadarko Basin; the Piceance Basin with some of the fields in there where you have these longer columns.

So the only other points I'll add on that as we look at those analogues is we have a couple of differences here. And that's one, the pressures that we are seeing in our well are even at the upper end of what you see in some of these basins. And that amount of pressure really provides you energy to help drive the gas out of the formation and increases the probability that you can be successful.

The other key point is, so far in Yamalik, we've drilled approximately 1,300 metres of gross column and the pressure has not reduced or changed. It has only increased. We have not really been able to find the analogue that actually has that much gross section of column for us to go after. So again, that really just helps us in understanding our probability of succeeding as we get into a production here.

And just a couple of points, then the other aspects are surface aspects. The fiscal terms in Turkey are excellent on a global scale. It's a simple tax royalty system with 12.5 percent royalty and 20 percent corporate tax. As Steve noted, gas prices in Turkey are very good and multiples of what we receive in North America.

And the other point is, Turkey consumed 5.5 Bcf of gas a day in 2017. This was up 20 percent from 2016. And the important point to note is more than 99 percent of that gas they consume is imported. So there is a real drive there to try and find their local gas supplies and that the economy will continue to grow based on that gas.

So looking at those factors, we've really seen that our analysts are starting to recognize this combination of the massive gas volumes and the very good economics and to start to work on what could this project be worth once commerciality is demonstrated.

In 2017, we delivered a greater than 350 percent return to our shareholders. We believe that by demonstrating that this play can be commercial, we're looking at the value numbers there that these returns are more even possible as we go forward.

So what are the next steps? Obviously, for us what we want to do to really add value to the Company is one, prove that this basin centred gas accumulation is pervasive across the basin. We have the strong evidence, but we need to demonstrate the lateral extent by drilling Yamalik-like wells around that basin to step out away from where we've just got the single well and also looking at whether we can push this deeper.

And importantly also, is demonstrating that the flow rate from production is clearly commercial and sustainable, and it goes to the question of what is your type curve. And working with our partner, Statoil, the key element to that program we're looking at now we're really the tie-in and the testing of the Yamalik-1 well and then going on to an immediate three-well delineation program around the basin where we're looking at pushing some of those wells down to 5,000 metres. So we now have the capital to do this. We have got the partner to do it. And we're looking forward to getting on to it.

So now we look at the timeline. And one of the feedbacks we've had in the questions is well, Valeura, if you're so excited about this and if Statoil is so excited about this, why aren't you back there testing the well already. Why aren't you back there drilling the well already? And I just want to give you a little more context with what we're working here.

One, we are dealing with very high pressures in this well. We did have to stop the drilling at Yamalik because we'd exceeded the pressure rating of the safety equipment. We're also dealing with very high temperatures. Now what this means is that there's really limited equipment or there are actual materials that you need in the drilling that you're going to have to go out and procure and that we want to make sure that we do this correctly and that we have the right materials available to us as we move into this testing and drilling campaign.

So as I noted, Yamalik had to stop drilling while still in a gas column because we'd reached the limit of the pressure-testing equipment. We then needed to upgrade that equipment at surface to 15,000 psi safety equipment for the fracing operation. I'll also note that the fracing at the bottom of Yamalik, the first test that we did, was not optimal because we could not use our designed pumping rate because it was going to start to approach the burst strength of the casing. So therefore, we need to make sure we have that stronger casing as we push deeper.

And finally, while we were very pleased with the testing results of Yamalik, which is positive, it was also complicated by using test equipment that was available in Europe that really did not have the procedures and processes set up to really allow us to do multiple fracs drill out plugs. These are operations that are done hundreds of times a day in North America. We need to get that equipment there, and we need to get the right people there to be able to apply this. We have the skills, and we need to really bring our contractors up to speed.

So the next step for the basin centred gas accumulation is to tie in Yamalik to our facilities. We were planning to do this about the beginning of July. As I noted, it has been a bit delayed from our plan of April, and that's because we've been in discussion with North American contractors to get the right production testing package, and we expect that that will now be actually exported from North America to set up over there in Turkey. Now this is also important because this is what we need going forward. And once this is over there, this equipment will be available to us as we go through our delineation program, all of our testing associated with that.

Bringing the Yamalik well online is also important because we do want to see the long-term flow characteristics. We also have the advantage by having the infrastructure that we can tie this in, and immediately, we're generating revenue from the gas production.

But just a couple of points I will note on Yamalik. Again, Yamalik was designed as an exploration well, not a production well. And all the testing program that we did with Statoil on that was about information gathering and not flow maximization. So less than half of the net pay we see on the log has actually been fracked and tested.

And also point out, you can look through the data, which is publicly available, for our different basins and that, but generally when you move into new basins and you're drilling those first exploration and appraisal wells, the flow rates that you're getting are roughly on the order of 20 percent or less from what you actually get from development wells that you drill only a couple years later. And this is because even though you've got the great technologies that we've got with fracking now, you still have to learn what is the optimal way to work with your own rocks.

Okay. Delineation drilling. We're going through a procurement process on that. We expect that we will actually be out there in the latter half of Q3 to start to drill the wells. And those will be three wells that will be drilled back to back. The designs are set up to go to 5,000 metres. Now we noted that Yamalik TD'd at 4,200 metres, so it's that ability to see how much more gas column still remains below us and how much more volumes will then add in because again note that the D&M Report again only assessed volumes down to the depth of Yamalik.

So those delineation wells will take about 90 days to drill and to move to the next location. So again, I note that we're fully funded. We are fully funded and carried by Statoil in the first of those wells, the drilling and testing. And then we will have to carry our own working interest as we move into wells two and wells three.

Okay. So that's on the forward program. And I just wanted to really discuss a bit of the issues related to Turkey. There's been a lot of comments made and that, but for those of you who are on the call, you're likely already an investor in international oil and gas or at least considering it. So in many ways, I'm preaching to the converted with this message.

And I can appreciate that many Canadian investors are uncomfortable investing in foreign jurisdiction, and we hear the term a lot about political risk. So I'll ask you to consider when we address these that the first thing that is very important in this is your team. You have an executive and a board that have lived and worked internationally and have returned shareholder value from a number of different jurisdictions globally. Additionally, Valeura has built up a strong and competent local Turkish team. Several of our senior people over there have had international oil and gas experience and then returned back to Turkey.

And the final element there is that we have a major international oiling company in Statoil as our partner, which does help us out as we move forward. But all of these really contribute to give us the highest chance of executing and delivering in Turkey.

The second one I'd like to point out is for my whole career I've lived and worked internationally, whether in North Africa, the Middle East, Europe, Southeast Asia, and Australia. And I think it gives me a little bit of a different view on what I call political risk. And what I see political risk is really more political uncertainty. And

that's understandable as people kind of are used to a Canadian environment and looking out there, and do I want to really deal in that different jurisdiction.

But as I've worked in developed fields in these different countries, what I can tell you is that I see significantly more political risk in western countries such as Canada. In Turkey, our oil and gas fiscal terms are excellent and they've remained stable, and even with the modernization of the petroleum law a few years ago, they have stuck to those same fiscal terms.

Compare that to trying to work in Alberta with the royalty regime here. In the UK, UK was very proud last year that they actually issued a couple of permits for people to drill and frac unconventional wells. Ten thousand more of those and they may actually have an industry. We've been fracing wells in Turkey since we arrived there. We've done over 100 fracs. We fracked Yamalik.

That doesn't mean we're complacent in these areas. We have actually installed a seismic monitoring grid. We work with the local Turkish scientific bodies to monitor that grid and understand it and to be on the leading edge of changes that could come.

More importantly is what I see in Turkey is a political will to get gas moving to their consumers and a recognition of how important gas is and energy in driving their economy. We are seeing pipelines being built over there. They recognize that they're sitting at an energy hub. They're continuing to build pipelines. And that may be hard for people to believe looking here in Canada, but there are significant pipelines being constructed at this date.

Just to the south of us this year, the TANAP Pipeline will come on, which is moving gas from Azerbaijan right through to Europe, and that's just to the south of us. And just to the north of us, we have two major import lines moving about a Tcf and a half of gas a year into Istanbul and into the Turkish grid.

So to summarize that, to find a major new gas discovery, this is a pretty good spot to put it in. We are very comfortable in this environment, sitting about 100 kilometres west of Istanbul. We have very good fiscal terms. We have very good prices. And we have access to infrastructure all around us and really the desire to stay within Turkey to make that happen. So thank you for that.

A final point I'd just like to touch on is really what we see in the trading of Valeura. The first point I'll make is that all of the executive management and board and contractors have been blacked out in Valeura trading for approximately five months. So the question of, if it's so exciting why are Valeura management not buying it, we've been blacked out for a significant amount of time given what was first the quarterly results in November right into the testing, and then with the D&M Report, it's just we've been blacked out for that time.

While we're all disappointed by seeing the slide in the price in recent weeks, essentially, this is based on no change in information. It's worth noting that our 60 million bought deal just over a month ago was oversubscribed, and this was by generally large institutions that completed financial due diligence on the program and on Valeura. They recognized the upside potential and were willing to buy in at \$5.70 a share.

I don't believe our new shareholders got it wrong, and I feel that they got a good deal. I believe that as we see the price now, that Valeura shares are an excellent bargain and to buy right now. So I know that Robin Martin, who is our new Investor Relations Manager and here in the room, agrees with me on that point. You'll be getting to know Robin over the coming months as he helps us to get the Valeura story out to a broader investor community and to attract more investors into the Company.

So kind of in conclusion, our BCGA story has not changed. The only thing that's evolved is that we are now fully funded and in an operational mode to execute that appraisal program to deliver shareholder value. So please

stay tuned for results as we tie in Yamalik and for our drilling program. We're all excited about being part of this play as we try and mature it.

And with that, I would like to thank you all for calling in this morning, and I'll now turn the call back over to the Operator to help us take any questions. And if you're on Twitter, you can submit your question to us using @valeuraenergy. Thank you very much.

Julianne?

Q&A

Conference Call Participants

Jeff Kowal

Private Investor

Ronnie Strasser

Private Investor

David Lu

Hedgehog Capital — Analyst

Jerry Jones

Private Investor

Arieh Coll

Coll Capital — Analyst

Malcolm Shaw

Hydra Capital — Analyst

Operator

If you would like to ask a question at this time, please press *, followed by the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Jeff Kowal, a private investor. Your line is open.

Jeff Kowal — Private Investor,

Hi, Sean. Thanks for an excellent overview. Great to hear that you guys are super excited as most of us current shareholders are of the prospects moving forward. I'm curious what you and I believe you mentioned his name is Robin, the IR person, have in store over the next couple of months to increase awareness in particular overseas, where there is likely an audience that is not too familiar yet with the Valeura story.

Sean Guest

Yeah. Thank you for that question, Jeff. It's a good one because we had a little bit of marketing and trying to get the story out there as we worked through that period in December and January. But then we've really been on closing the deal quite busy.

So as we've gotten through that period, we've concluded our board meetings this week. It's really the next focus for me is on getting back out on the road and trying to make sure that there is an awareness of the story. So we're looking at setting up some marketing. I'll intend to be over in the UK specifically in April. And then we'll look to also come around North America as well in that period.

We will be updating the presentation because again, the corporate presentation that's there is now over a month old. So that'll be out very quickly as well. But also, really looking to try and just open up how we access different communities. And that's why Robin has been brought in, just to try and help us access different areas through different media.

Jeff Kowal

Thank you.

Operator

The next question comes from Ronnie Strasser, another private investor. Your line is open.

Ronnie Strasser — Private Investor,

Hi. Good morning, and thank you for that very comprehensive update. A few quick questions. You just mentioned IR. What is the budget the Company is putting towards investor relations and getting the message out to the rest of the world?

Sean Guest

Yeah. I think that—Steve?

Steve Bjornson

Yeah. I think what we do is we have a corporate communication budget and it incorporates a few more things than just being on the road. But in general, we put aside about \$200,000 to cover all the costs and some of them are public company costs, but they're marketing costs of other good things like government relations, too. So there's a lot of things that are incorporated in that. But we have a fairly healthy budget.

Being in Turkey, too, we have to do some work there with the government. So it's generally something that we try to stay within budget. This is the first year where we actually have significant cash on the balance sheet. So we're not trying to—we've always been trying to run a shoestring budget. So this is something a little bit new for us this year.

Ronnie Strasser

Okay. Next question.

Sean Guest

The other thing—

Ronnie Strasser

You mentioned that the insiders were all blacked out for five months. Is that blackout period over?

Sean Guest

That blackout period ends two days after release of our results. So it will be over tomorrow.

Ronnie Strasser

It will be over tomorrow. I see. Next question; when the private placement was issued a month ago at 5.70, I'm just curious why wasn't there a four-month hold on the shares because there's been talk that a lot of the—

Sean Guest

It was a—

Ronnie Strasser

Sorry. There's been talk that a lot of the institutions may have just sold the shares into the market at higher prices.

Steve Bjornson

Yeah. It's highly unlikely they did that because they wouldn't have known the issue was coming. So that's a false claim.

At the end of the day, we did a prospectus financing, and so we're not required to have the four-month hold. It was a marketed deal. And it helps us attract a larger group of investors without the four-month hold. The four-month hold is very restrictive and very difficult to find audience.

And we were also accessing money in London and, obviously, London's not going to have a big appetite for the four-month hold.

Ronnie Strasser

I see. Okay. And last question, do you have any idea of how many shares management controls?

Steve Bjornson

The percentage is 5, 6 percent.

Sean Guest

I think it's approximately about 5 percent. But that'll obviously come out in our—getting ready for the AGM and our management information circular within the next two weeks.

Ronnie Strasser

I see. Okay. Thank you very much.

Sean Guest

Thanks, Ronnie. Obviously, you note that as I noted myself have been blacked out for this period and being new to the Company, unfortunately for me, I missed out on a huge opportunity there because I was really over in Turkey for a lot of last year, and I was unable to buy in at that time. So I will be looking for opportunities as we go through this next phase to actually pick up shares at what I believe are a very good value.

Ronnie Strasser

Thank you.

Operator

Again, to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from David Lu from Hedgehog Capital. Your line is open.

David Lu — Hedgehog Capital

Yeah. Hi, Sean. Just a question. You mentioned you're marketing in London and had significant interest from investors in London. Is a London listing something that you are considering?

Sean Guest

David, it's a very good question because last year, the Company did have some discussions on that as to whether we'd look at it. But really at that time, it was driven by a low valuation, a desire that we felt that at that type of value, it's going to be very difficult for us to raise capital, and we thought that the story would be much better perceived in a London-based community, which I still believe is true.

So right now, we have the funding, and it's not really required. However, we will continue to review that option just from the point of view as to whether the trade over there would actually still help the share price and to maintain that because I still do believe that London, they really get the European story. They get the gas story over there. And maybe you're a little more comfortable than some, while we have Toronto or New York investors who see that as just a little bit too close to the Middle East.

David Lu

Okay. Second question is, I was wondering, you weren't expecting the amount of condensate in Yamalik originally. And did that affect the timing of the tie-in here to account for that?

Sean Guest

First of all, you're right, David. All the gas in the Thrace Basin generally produced in the shallow is very dry. Essentially all of our shallow production, we quite simply dehydrate it and sell it to our customers directly.

The amount of condensate we encountered in the deep was a surprise. And what we can say is first off, it was a further complication on the testing just because as we tried to manage the sand flowback, the condensate flowback, it just complicated the testing. So it is something that we've looked at and need to take into account as we go into one, the further testing on Yamalik and the condensate.

But no. The real critical path item there is to getting test equipment and people who are happy that what you're looking at is how you flowback the sand. So obviously, when you do some fracing you do flow back quite a bit of sand and fluids and that in that early phase. And some of the European testing equipment do not allow any of that to flow through their system. And when you try and filter it, it just blocks up.

So what happens here in North America is everything just flows back through your test equipment, and then once you're all done then you clean up that test equipment. But really those procedures aren't as broadly used in Europe.

So it might seem like a bit of an issue that we have to move this over there. And then there's a concern well, how do you get into development phase? But look. We're in the exploration phase here, we really need one test package. We don't need 1,000. So we're quite confident we can get the stuff that we need in-country and get on using it correctly.

David Lu

Okay. Well, I mean, it's obviously a good problem to have?

Sean Guest

Yes.

David Lu

The second thing, just to date, if you could just refresh my memory, like how much has Statoil spent on this play and will spend through their commitments here?

Sean Guest

Yes. I think—

David Lu

Roughly?

Sean Guest

—the number we had—there is a number on Slide 9, which I think says US\$70 million is what we expect that they will spend including that last well. Now recognize the change that we've had is by wanting to drill deeper, both Statoil and ourselves, we expect that last well is going to be closer to \$25 million. So add \$10 million to that number. So you're looking at probably they're going to have spent US\$80 million to earn their 50 percent rights in this.

David Lu

Okay. And is it safe to assume that the really high grade (phon) in the first couple wells, this is not necessarily representative of cost going forward?

Sean Guest

Yeah. Thanks for asking that because again, it's an exploration well, and it's well number one in the basin. And anyone sitting there who's used to running economics on unconventional plays would go wow, \$25 million and your flow rates; that can never be economic. But that's not the case here.

These wells that we're drilling, we're taking a huge amount of core in them because they're the first wells. These wells we've had were very expensive as we brought a rig in specifically for this, and obviously, if we get into production mode, you've got the rigs in-country. You're not paying 25 percent of your cost as a mobilization fee. You get into pad drilling. So we see the cost coming down significantly.

In 2013, Valeura and its partners drilled a Hayrabolu-10 well in the west of the block. That one went to over 4,000 metres and cost under US\$5 million. So if we start to progress that type of drilling logic into a go-forward plan, we believe we'll be looking at development wells that are drilled, cased, and fracked, probably in the order of 8 million to 10 million would be the number you would use.

David Lu

Okay. Okay. That's great. Thanks.

Sean Guest

Thanks, David.

Operator

Your next question comes from Jerry Jones (phon). Please state your company. Your line is open.

Jerry Jones — Private Investor,

York University. Just a couple of quick questions. Since the resource assessment has come out, have you been approached by any major company about a possibly buyout?

Sean Guest

Yeah, Jerry, that's a good question because when you kind of look at this type of unconventional play and say well, you have 10 Tcf of gas. You're an unconventional player. Is this the story that's right for a small cap Canadian explorer? Or who would this asset fit best with? And Statoil will know the answer to that. And you can imagine that there would be other interests.

So when Statoil came in on this, the Company had done a farming procedure and there were several offers on the table from different companies at that time. Statoil's offer was the best then.

Now obviously, what we saw then was Statoil was really willing to come in at that risk phase. So what you can look at going forward is there really is an expectation here. As these volumes get better understood and you get more line to commerciality, you can expect that someone is going to look at this and say, this is a great asset to have in a major company. Look at the amount of reserves there. And these companies take a 20- to 40-year view of these type of projects.

So no. There have been no direct approaches, but I can imagine that there would be interest out there as it continues to mature.

Jerry Jones

And the second quick question. In terms of road trips, have you been on any road trips in Toronto, New York, or London yet? Or do you have any planned in the immediate future?

Sean Guest

Yes. I have been through New York and London several times in the past three months. Sorry, yeah, New York and Toronto. And we'll plan to get out there as well sometime in the next month or so.

Jerry Jones

Thank you very much.

Sean Guest

Okay, Jerry. Thanks for your call.

Operator

Your next question comes from Arieh Coll from Coll Capital. Your line is open.

Arieh Coll — Coll Capital

Thank you. And again, once again, appreciate you doing this call. Thanks for that. The question is about development. Given the infrastructures in place around you in the area in terms of pipelines, processing, et cetera, can you give a sense of, if the additional exploration wells you drill in 2018, '19, if results are positive, give a sense for what the total cost might be to shift them into production mode in terms of not just the well cost you talked about, but I'm talking more specifically about transport, processing, infrastructure, all these other costs; just the total cost that might be needed to move the Company from just being drilled a couple wells to being in the position to be producing from, let's say, 20, 30 wells and doing everything they need to do to get the natural gas to its final destination?

Sean Guest

Yeah. Arieh, that's a good question. And it allows me to really bring up one of the key points we have, which is if you have the package open, it's on Slide 6. But Valeura through its ownership of TBNG and operatorship, we actually own all of the infrastructure in that area of the basin right from the wellheads through the compression, the export, and we sell it to 55 separate customers. That production has been declining for a number of years, but we know that that system can do up to 35 million standard cubic feet a day, and currently, we're putting into it about 6 million standard cubic feet a day.

So every exploration well, every appraisal well, and even if we were to go to a pilot project in this area, can be immediately tied into that production and delivered to the customers. So the estimate to do that would probably be about US\$3 million gross, so 50 percent our cost if it's in Banarli, to tie those in and start to produce it. So really the cost is quite minor in the tie-in cost. And again, we own and operate the infrastructure. All the commercial agreements are in place. So we see that as sufficient to really go through this whole appraisal and pilot project phase.

Arieh Coll

All right. I understand. But then at some point, if possible, if you're contemplating going from 35 Mcf per day to a much larger number that your reserves can potentially provide for, up to let's just pick a number, 500 Mcf, I'm

just trying to sense for give us what the costs are to boost production on the infrastructure level for maybe every 100 Mcf per day? Just some sort of guideline?

Sean Guest

Yeah. The production and no. We have internally, we've run a little bit of economics on that. The main thing is the—really, it's quite easy to put it into the system there. We have a regional gas distributor in that area, who we've had discussions with, called Gasdas. They supply all the gas to the region.

They've essentially told us if we'd like to do agreements with us, if they can give them 1 million a day, they can take it. If we can give them 1 Bcf a day, they can take that into their system. So, I mean, regionally they're quite a large distributor. And their connection point to our compression facilities, it's already set up that there's only a few-kilometre-long link to hook into that.

So really the majority of the cost as you start to talk about going to 500 million a day is related to well-based economics. In other words, each well that you drill, what is the estimated cost to put that infrastructure in to tie it back?

The other thing that we are working on, and we'll really have to wait for some more testing results is what will be the additional capital cost to really do the condensate extraction and then to export that condensate. Because the condensate, it creates complication in your surface facilities, you need to add a lot more capital there. But it has a huge value upside when delivered there. So that's one thing we're still working to understand.

Arieh Coll

Okay. Thank you very much.

Operator

Your next question comes from Malcolm Shaw from Hydra Capital. Your line is open.

Malcolm Shaw — Hydra Capital

Hey, Sean. Thanks for having the call today. Are you able to talk about the quality of the reservoir that you encountered in Yamalik relative to say, other type sand gas plays out there? And then maybe just a bit about the overall geology of the target intervals.

Sean Guest

Yeah. What I can say is there's private information out there on different basins that you can kind of look around, and I think I noted before the Granite Wash play in the Anadarko Basin, which has been quite heavily studied. There are obviously thousands of wells in there, as an example. So and then there's both from private sources as well as companies releasing information.

That basin is between 3,500 metres and 4,100 metres. We know from a depositional setting that that is actually a marine, it's a fan delta submarine lobe, which is very similar to our depositional setting. We know the mineralogy of the two are quite similar in there. And the pressure gradients that they look at, we're at about 0.7 to 0.8 psi per foot, and that's very similar as well.

So we're still working on it, but the net sand that they have is kind of about half. So net to gross ratio is about half. But then it's a matter of your porosities that you're dealing with there. And our porosities—and again, this

is early days. We've got one well, but we have core, we have wireline evaluation. Our porosities, we find, are very similar in average amount to what they have and look for those depths in the Anadarko sub-basin.

And as well as in on the saturation numbers, we're looking that they're quite similar. So, we haven't put the specific petrophysical summary on our area, but I find that the Granite Wash, the properties at Granite Wash in the Anadarko Basin, are very similar to what we have.

Malcolm Shaw

Okay. In that context, would you envision horizontal or vertical development? Or maybe a mixture of both? How do you—I mean, I know it's one well in, but how do you see it playing out?

Sean Guest

No. It is a good question because when we went into this play, what we expected is very similar to what you get here in North America. You're going to drill some vertical exploration wells. You'll find a few sweet spots where it looks good, and then you'll put horizontal wells into those. Now as we then drilled 1,300 metres of column, we started to think more vertically. And in that way, we started to go down to Dallas and interact more with consultants and people who are working things like the Piceance Field or the Jonah Field which have a lot of vertical development in that.

Now the only thing I can add to that is if we progress more on the work, as we've looked at the testing results, we believe like in many of the basins over here that fracturing will be important as to how to maximize your flow and production from each well. And that is best really accessed through horizontal wells drilled perpendicular to the fracture sets.

So in the end, what I can say is, we don't know if it's vertical or horizontal yet. We'll obviously get more results here. But I think a horizontal well accessing the fracture sets is likely to give you the best production performance.

Malcolm Shaw

Got it. And last question. When you tie Yamalik in, once you mill out the plugs and then install the tubing and pull it back, how long would you want to see that well produce before you had or were able to generate a population of type curves that would start to give you a better handle on economics? Is it 30 days? Is it 90 days? Is it both of those?

Sean Guest

I'm going to say it's actually going to be both of those. We're obviously going to be very interested to see how it comes on initially once cleaned up through the tubing, but then to really look at how quickly it falls off in that initial period. So yeah. I think a 30 day will be very important and then really also the 90 day.

Malcolm Shaw

All right. And typically, when you install tubing, you increase gas velocity so you should be able to risk (phon) more fluid and have less back pressure in the well? Is that fair comment?

Sean Guest

No. That's a very fair comment. And that's the testing that we did in Yamalik with the other complications with the surface equipment, obviously, we were producing all that gas and fluid up the casing. So you've got a large

casing in there. So you lose your velocity, and then you do start to get those frac fluids starting to put the pressure on the well and actually stop the production. So getting the tubing in there to really lift all those fluids out effectively is a key step as well.

Malcolm Shaw

I look forward to it.

Sean Guest

Okay. Thank you very much for calling in, Mal.

Malcolm Shaw

Thanks.

Operator

We have no further questions at this time. I turn the call back over to the presenters.

Sean Guest

Well, thank you, everyone, very much for your time and for calling in today. We appreciate it. And I hope to see people as we actually get out on the road and start to tell the story a little more. So our contact numbers are available, and please feel free to contact myself or Steve or Robin directly if you have any more questions, presentation today. Again, thank you for your time.

Robin Martin — Investment Relations Manager, Valeura Energy Inc.

Thanks, everyone.

Steve Bjornson

Thanks.

Operator

This concludes today's conference call. You may now disconnect.
