



Valeura Energy Inc.

Fourth Quarter 2018 Results Conference Call

SPEAKER SCRIPT

Calgary, March 14, 2019: The following is the Speakers' Script from the Valeura Energy Inc. Fourth Quarter 2018 Results Conference Call, held at 11:00AM ET on March 14, 2019. An audio replay of the call is available with the webcast link:

<https://event.on24.com/wcc/r/1938046/559D5CA7E1328CDCEA05EE6E6247F220>

Speakers:

Sean Guest, president & Chief Executive Officer
Steve Bjornson, Chief Financial Officer

Sean

Introduction

Thank you operator. Welcome to Valeura Energy's fourth quarter results conference call.

My name is Sean Guest, I am Valeura's President and Chief Executive Officer. Joining me here in Calgary are Steve Bjornson, CFO, Heather Campbell, Financial Controller, and Robin Martin, Investor Relations Manager.

Before getting started, I'd like to draw your attention to our general disclaimer, which is provided on our corporate website, and in our updated Corporate Presentation, which is on our website, and available by link for those of you joining through the webcast. I'd also like to point out the advisories regarding forward-looking statements and non-GAAP measures, used in this discussion.

As of this morning, we've filed our financial and operating results for Q4 2018, as well as our reserves and resource report for the year ended December 31, 2018. They're available on SEDAR and on our website.

To get started, I'll touch on some highlights from our press release, and then will hand over to Steve who will take us through a financial review. After Steve, I'll provide an update on Operations and will then take any questions you might have.

Context

2018 as a whole was a challenging year for Turkey given federal elections, followed by the devaluation of the Turkish Lira and an increase in inflation- A lot of volatility. Q4, in contrast was a relatively quieter quarter for Turkey from a newsflow point of view, and with that, we saw a recovery of the Lira and a period of financial stability.

As I look back on 2018 there are two points I want to make:

First, we continue to see a stable and secure operating environment on the ground in north-west Turkey. We have good relationships with the regulators and government agencies we depend on for permitting and approvals, as well as, the local communities we work with on a daily basis.

Second, while the TL devalued sharply mid-year, at Valeura we have actually seen an increase in our realised gas price of 37% in 2018 such that in Q4 we received over \$9/mcf. These high prices have continued into 2019.

I want to emphasis this again, as I believe many shareholders are concerned in our ability to realise full value for our gas because our price is set in TL. We continue to see that the Turkish regulator and price authority, BOTAS, regularly adjusting gas prices so that pricing remains similar to the cost of gas in the European region. That's an important relationship as we look toward the long-term value of our gas resource in Turkey

Touching on a few other highlights.

As is required by the TSX, our reserves were evaluated by our auditor, D&M. At year-end 2018 we have 2P volumes of nearly 7.4 million boe. That number is down 6% from the prior year, reflecting mainly our 2018 produced volumes. Of note is that the value of the remaining reserves is up 35% from the prior year given the higher gas prices in Turkey

Our average production in Q4 of 623 boe/d was roughly flat compared to Q3 2018, but we ended the year at a higher rate of 777 boe/d. Given continued maintenance and workovers by our staff in Turkey, we have been able to roughly maintain this production rate into Q1 2019.

While we are pleased with our shallow production, our operational focus in 2018 was on appraisal of our deep unconventional play. These appraisal activities have continued on plan into 2019, and we continue to be encouraged by what we're seeing from all data acquired to this point.

We currently have operations ongoing at 3 deep wellsites. At the Yamalik-1 discovery well we are preparing the well for Production Logging to increase our understanding of the flow potential of different zones that were originally stimulated in that well. At Inanli-1, we will be undertaking a Diagnostic Fracture Injectivity Test (or DFIT) as the first step prior to finalising the complete stimulation and testing program. Meanwhile, the Devepinar-1 appraisal well has drilled to just above the objective Kesan section and there has been very clear indications of overpressured gas at the base of the section just drilled.

On the corporate front,

We exited the year with ~\$60 million of working capital which is more than we had after our Q1 2018 raise, and

we are well progressed toward an additional listing of the Company's shares in the UK. I will speak to this more in a minute.

With that, I'm going to hand the call over to Steve to walk us through a financial review. Steve?

Steve

Financial Review

Thanks Sean and hi everyone.

Financial and Operating results for Q4 are summarised in a table at pages 2 and 3 of the press release we issued this morning.

The headline from a finance standpoint is that our balance sheet remains in excellent shape. We have no debt, and working capital is sitting at \$59.5 million. In fact our working capital has grown at the close of 2018 from the \$55.4 MM equity financing in the first quarter of 2018. As we continue planning out the appraisal program, I'm confident that we have sufficient resources to fully fund our portion of spending through the end of 2019 and beyond. We are in a good financial position.

Remaining costs for the Inanli-1 appraisal well (namely, the completion programme) are being carried by our partner Equinor as part of their farm-in agreement. I'm pleased to say that drilling operations (operated by Valeura) were concluded on budget, and we're working hard to keep the completion programme on budget too.

As of Devepinar-1, we are participating according to our working interest share, which is 31.5%. And just to re-iterate, we've got sufficient financing for this, and are fully financed through the remainder of the capital programme for 2019, which includes Devepinar-1 drilling, completion, and testing along with any further capital spending for the BCGA in 2019.

As Sean mentioned, our conventional gas production continues, with average production of 623 boe/d in Q4, which generated revenue of \$3.15 million. While production was down 5% over the prior quarter, revenue was up by 31%, reflecting the higher prices we saw in Q4.

Realisations were \$9.06/mcf, which is by no means a record for our business in Turkey, but is in stark contrast to the prevailing prices in North America. We have a very valuable business in Turkey, and I believe results like this illustrate it well.

Not surprisingly, we achieved strong operating netbacks in the fourth quarter, of \$32.48/boe, which is 38% higher than in Q3.

And with that, I'll hand it back to Sean.

Sean

Thanks Steve.

I'd now like to give a little more colour on operations and activities.

By way of reminder, our focus is on appraising and de-risking our BCGA. The way we intend to do that is by demonstrating that 1) overpressured gas is pervasive across our lands and that 2) commercial flow can be achieved.

Yamalik

We believe there is more we can learn from the Yamalik-1 well. And for that reason, we've gone back to the well, and are currently preparing to log individual intervals that were stimulated by way of Production Logging Testing (or PLT). What this will tell us is rates of inflow and specific products on an interval-by-interval basis. We expect the results of PLT testing over the next few weeks.

Inanli

Inanli-1 was our first appraisal well, which was drilled to nearly 4,900 metres in January 2019. We encountered a large column of 1,615 metres of high net-to-gross gas-bearing sandstone, and we identified at least four intervals of interest, worthy of fracking and testing. We're getting onto the initial phase of the completion programme now, with the DFIT near the bottom of the well. The DFIT test is expected to occur over the next few weeks, but I caution our listeners that these data are not on its own exciting, but

will then be used mainly to finalise the selection of the equipment and finalise the full completion program which is then expected to start around the end of April.

Based on the data we currently have from Inanli-1, we expect to frack at least 4 intervals and this programme could continue for a couple months. As we've previously announced, if we see something interesting from the fracking results, we are prepared to test individual intervals for longer periods of several weeks, and will (wherever possible) test through our existing production infrastructure so that we are able to sell the gas to our customers. We would expect to announce results as and when we have material information to share.

Devepinar

The next appraisal well, the one we're drilling now, is called Devepinar-1. Those of you who've been watching our announcements know this was spudded last month. Now, this well is a big step-out from the prior BCGA wells, approximately 20km to the west, so will test the lateral extent of the BCGA to the western side of the basin.

It's early days for Devepinar-1, but drilling is going well and we are at an intermediate casing point just above the target Kesan Formation. We have already had confirmation of high pressure gas entering the wellbore. We'll release more information when we're able to.

What we learn from drilling, logging, and testing Yamalik, Inanli, and Devepinar will greatly advance our understanding the play. Now, to be clear, the appraisal wells we are currently drilling are only vertical wells and are designed to give us an understanding of how the quality of our BCGA play varies vertically through the more than a kilometre of gas-charged section we have drilled to date, and laterally across the whole area of the basin we control. In normal course in our industry, one wants many of these vertical wells with production data to build a vertical and lateral model of the play and to identify the best zones in the best areas. These will then be targeted for horizontal wells. In our planning with our partners, we believe that these steps do not need to run in serial mode, but with good results in 2019, the notional plan for 2020 is to be already drilling horizontal wells – to understand production potential, while at the same time progressing with continued vertical appraisal wells across the whole area.

This is important, as what we do know from looking across basins in North America, is that horizontal wells will deliver much higher production than seen with vertical wells – The production rate in horizontal wells will be multiples, or many multiples of the vertical well production.

It's exciting times for our BCGA play in Turkey, and we're moving as quickly as we can given that we are still in the early phases of learning and appraisal.

A couple of other points I'd like to touch on related to the BCGA play

You will note that the D&M Prospective Resource report was updated for year end 2018. This was not a requirement for the TSX, but we did require this update to include in our prospectus filing to support the UK listing. That was the sole reason for the update and unfortunately that also drove the timing of the report in that it was as of December 31, 2018.

As of December 31st, the effective date of the report, the new information available to D&M was the Yamalik-1 long-term production test and drilling data from a portion of the Inanli-1 well, which was still being drilled as of year-end. Having reviewed the Yamalik-1 production data and the limited data from Inanli, D&M concluded that there was no new information which would justify a change in either the volumes they associate with the play, or the risk of success. Accordingly, the numbers remain unchanged from end 2017 which show Valeura with 10.1 Tcf of estimated working interest unrisks mean prospective resources of natural gas, which includes 235 MMbbl of condensate.

I would also like to make a comment on value. In very simple terms if you look at the current market cap of Valeura at \$250 million, and subtract the value of our cash in the bank and our audited 2P reserves, the total value that the market attributes to our whole BCGA play is ~US\$75 million.

Again, I am not pointing to exact value, I am pointing to the vast difference between what the market ascribes to the asset, and to what we, our external auditors, and our analysts, see as the potential of the asset.

London listing

We are stepping up efforts to have the Valeura story heard by a broader audience of investors.

In November we released that the Company was planning to undertake an additional listing of our shares in London and that this would be a Q1 2019 activity with timing linked to our year-end results. Today we released our year-end financials and reserves.

A London listing is the right move for the Company and our existing shareholders. We believe that we will be able to attract increased institutional following and more research coverage in the London market – A Turkish gas story is much better understood in Europe. To emphasize this point, when we raised capital 12 months ago almost all of the money came from London.

Looking at a 12 month period around our raise the total amount of equity raises for international E&P companies in Toronto was US\$60 million, Valeura was \$45 of that. In the equivalent period in London more than US\$ 2 billion raised.

So, I can confirm to you that we are proceeding with the documentation and filing for an additional listing in London and that this will be on the main board of the London Stock Exchange.

I can confirm that the company does not intend to raise any capital at the time of this listing and so there will be no dilution to our existing shareholders.

On the exact timing of commencing trading in London, this will be related to the UK listing Authority approving our prospectus and the listing. Once the UKLA has granted the Company approval, the normal process is to issue an announcement on our formal Intention to File and then in normal course the Company would be trading ~ 1 week later.

Section on caution on use of Websites

Before bringing this to a close I want to touch on one other issue. Im sure you will all be aware of the debates going on globally about the positives and negatives of social media and the many recent cases of abuse. This extends directly into investor information sharing websites. While the objectives of these websites are extremely valuable to the community in that they strive to provide a forum for information sharing between investors, they remain highly susceptible to misinformation – some of which is malevolent and designed to influence, and others are more innocent, but lacking in real or fulsome data on which to draw conclusions.

We would like to caution our shareholders against believing information posted on these websites. As a Company, we are bound by strict legal guidelines about what we are able to say to you and assuring that we are able to backup statements with external evidence.

Anonymous bloggers have no such guidelines.

We appreciate our shareholders who contact us to make us aware of some of these posts, but to be clear, the Company will not engage in debate on these sites. We remain open to shareholders contacting us directly with their questions or concerns. We remain open to people who feel they have a geological background calling us and asking questions but also encourage investors to seek professional advice.

Summary

In summary, I'd just like to say this continues to be an exciting time for Valeura. We continue to find positive signs as we proceed through our evaluation programme, and I believe are doing the right things to demonstrate the value of the BCGA, and to unlock value in the capital markets.

With that, I'd like to thank everyone for calling in this morning. And I'll now turn the call back over to the operator to help us take any questions.

Operator