valeura energy inc.


**Condensed Interim Consolidated Financial Statements (unaudited)**

**as at June 30, 2013 and for the three and six months ended June 30, 2013 and 2012**

**Consolidated Statements of Financial Position**

| (thousands of Canadian Dollars, unaudited) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 16,743 | $ 29,031 |
| Accounts receivable | 6,478 | 6,863 |
| Prepaid expenses and deposits | 491 | 439 |
| | 23,712 | 36,333 |
| Exploration and evaluation assets *(note 3)* | 51,268 | 48,595 |
| Property, plant and equipment *(note 4)* | 44,006 | 40,783 |
| | $ 118,986 | $ 125,711 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 8,977 | $ 12,076 |
| Decommissioning obligations | 9,524 | 9,441 |
| Deferred taxes | 6,716 | 6,857 |
| Shareholders' Equity | | |
| Share capital *(note 5)* | 135,778 | 135,778 |
| Warrants *(note 5)* | 5,971 | 5,971 |
| Contributed surplus | 10,588 | 9,678 |
| Accumulated other comprehensive loss | (7,167) | (5,735) |
| Deficit | (51,401) | (48,355) |
| | 93,769 | 97,337 |
| | $ 118,986 | $ 125,711 |

See accompanying notes to the condensed interim consolidated financial statements

See Commitments *(note 7)*

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**Consolidated Statements of Loss and Comprehensive Loss**
**For the three and six months ended June 30, 2013 and 2012**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (thousands of Canadian Dollars, unaudited) | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| **Revenue** | | | | |
| Petroleum and natural gas sales | **$ 4,897** | $ 6,864 | **$ 9,745** | $ 13,674 |
| Royalties | **(638)** | (934) | **(1,272)** | (1,902) |
| Other Income | **219** | 104 | **493** | 213 |
| | **4,478** | 6,034 | **8,966** | 11,985 |
| **Expenses** | | | | |
| Production | **1,031** | 1,086 | **2,218** | 2,185 |
| General and administrative | **1,653** | 1,683 | **3,376** | 3,512 |
| Gain on asset disposition | **-** | (100) | **-** | (100) |
| Financing | **137** | 166 | **278** | 321 |
| Foreign exchange (gain) loss | **487** | (86) | **361** | (231) |
| Share-based compensation | **383** | 493 | **740** | 865 |
| Exploration and evaluation *(note 3)* | **1,417** | 561 | **1,427** | 1,130 |
| Depletion and depreciation *(note 4)* | **1,776** | 2,899 | **3,587** | 6,140 |
| Impairment *(note 4)* | **-** | - | **-** | 888 |
| | **6,884** | 6,702 | **11,987** | 14,710 |
| Loss for the period before income taxes | **(2,406)** | (668) | **(3,021)** | (2,725) |
| Income taxes | | | | |
| Deferred tax expense (recovery) | **(178)** | 84 | **25** | 367 |
| **Net loss** | **(2,228)** | (752) | **(3,046)** | (3,092) |
| Other comprehensive loss | | | | |
| Currency translation adjustments | **(1,952)** | 512 | **(1,432)** | 2,691 |
| **Comprehensive loss** | **(4,180)** | (240) | **(4,478)** | (401) |
| Net loss per share | | | | |
| Basic and diluted | **$ (0.04)** | $ (0.02) | **$ (0.05)** | $ (0.07) |
| Weighted average number of shares outstanding | **57,906,135** | 46,406,135 | **57,906,135** | 46,406,135 |

See accompanying notes to the condensed interim consolidated financial statements

**Consolidated Statements of Cash Flows**
**For the three and six months ended June 30, 2013 and 2012**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (thousands of Canadian Dollars, unaudited) | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Cash was provided by (used in): | | | | |
| **Operating activities:** | | | | |
| Net loss for the period | **$ (2,228)** | $ (752) | **$ (3,046)** | $ (3,092) |
| Depletion and depreciation | **1,776** | 2,899 | **3,587** | 6,140 |
| Impairment | **-** | - | **-** | 888 |
| Exploration and evaluation expense *(note 3)* | **1,417** | 561 | **1,427** | 1,130 |
| Share-based compensation | **383** | 493 | **740** | 865 |
| Financing | **137** | 166 | **278** | 321 |
| Unrealized foreign exchange loss (gain) | **468** | 22 | **351** | (207) |
| Gain on asset disposition | **-** | (100) | **-** | (100) |
| Deferred tax expense (recovery) | **(178)** | 84 | **25** | 367 |
| Decommissioning costs incurred | **(8)** | - | **(33)** | (2) |
| Change in non-cash working capital | **(211)** | (945) | **1,178** | 72 |
| | **1,556** | 2,428 | **4,507** | 6,382 |
| **Investing activities:** | | | | |
| Property and equipment expenditures | **(612)** | (2,698) | **(909)** | (4,536) |
| Exploration and evaluation expenditures | **(5,691)** | (7,995) | **(11,839)** | (14,845) |
| Proceeds on asset disposition | **-** | 100 | **-** | 100 |
| Change in non-cash working capital | **(1,071)** | 4,207 | **(3,983)** | 7,073 |
| | **(7,374)** | (6,386) | **(16,731)** | (12,208) |
| Foreign exchange gain/(loss) on cash held in foreign currencies | **(197)** | (4) | **(64)** | 57 |
| **Net change in cash and cash equivalents** | **(6,015)** | (3,962) | **(12,288)** | (5,769) |
| **Cash and cash equivalents, beginning of period** | **22,758** | 22,300 | **29,031** | 24,107 |
| **Cash and cash equivalents, end of period** | **$ 16,743** | $ 18,338 | **$ 16,743** | $ 18,338 |

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

**Consolidated Statements of Changes in Shareholders' Equity**
**For the six months ended June 30, 2013 and 2012**

| (thousands of Canadian Dollars, except share and per share amounts, unaudited) | Number of Shares | Share Capital | Share Purchase Warrants | Contributed Surplus | Deficit | Accumulated Other Comp. Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | 57,906,135 | $ 135,778 | $ 5,971 | $ 9,678 | $ (48,355) | $ (5,735) | $ 97,337 |
| Net loss for the period | - | - | - | - | (3,046) | - | (3,046) |
| Currency translation adjustments | - | - | - | - | - | (1,432) | (1,432) |
| Share-based compensation | - | - | - | 910 | - | - | 910 |
| **June 30, 2013** | **57,906,135** | **$ 135,778** | **$ 5,971** | **$ 10,588** | **$ (51,401)** | **$ (7,167)** | **$ 93,769** |

| (thousands of Canadian Dollars, except share and per share amounts, unaudited) | Number of Shares | Share Capital | Share Purchase Warrants | Contributed Surplus | Deficit | Accumulated Other Comp. Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2012 | 46,406,135 | $ 122,059 | $ 5,971 | $ 7,653 | $ (32,450) | $ (7,551) | $ 95,682 |
| Net loss for the period | - | - | - | - | (3,092) | - | (3,092) |
| Currency translation adjustments | - | - | - | - | - | 2,691 | 2,691 |
| Share-based compensation | - | - | - | 1,075 | - | - | 1,075 |
| **June 30, 2012** | **46,406,135** | **$ 122,059** | **$ 5,971** | **$ 8,728** | **$ (35,542)** | **$ (4,860)** | **$ 96,356** |

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 and Western Canada. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands 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 – 6 Avenue SW, Calgary, AB, T2P 2R9.

## 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 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, 2012, 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. The attached unaudited condensed consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2012.

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

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 unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 13, 2013.

### (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, 2012 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.

(thousands of Canadian Dollars, unaudited)

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the balance sheet 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.

## 3. Exploration and Evaluation Assets

| Cost | Total |
|---|---|
| Balance, December 31, 2012 | $ 48,595 |
| Additions | 11,839 |
| Transfers to property, plant & equipment ("PP&E") *(note 4)* | (6,691) |
| Capitalized share-based compensation | 149 |
| Exploration and evaluation expense | (1,427) |
| Effects of movements in exchange rates | (1,197) |
| **Balance, June 30, 2013** | **$ 51,268** |

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. Transfers to exploration and evaluation expense represent the Company's share of impairment on E&E Cash Generating Units ("CGUs").

## 4. Property, Plant and Equipment

| Cost | Total |
|---|---|
| Balance, December 31, 2012 | $ 68,699 |
| Additions | 909 |
| Transfers from exploration and evaluation assets *(note 3)* | 6,691 |
| Change in decommissioning obligations | 70 |
| Effects of movements in exchange rates | (1,359) |
| **Balance, June 30, 2013** | **$ 75,010** |

| Accumulated depletion and depreciation | Total |
|---|---|
| Balance, December 31, 2012 | $ 27,916 |
| Depletion and depreciation expense | 3,587 |
| Effects of movements in exchange rates | (499) |
| **Balance, June 30, 2013** | **$ 31,004** |

| Net book value | Total |
|---|---|
| Balance, December 31, 2012 | $ 40,783 |
| **Balance, June 30, 2013** | **$ 44,006** |

(thousands of Canadian Dollars, unaudited)

**(a) Impairment testing**

IFRS requires an impairment test to assess the recoverable value of PP&E within each Cash Generating Unit ("CGU" or CGUs") 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, 2013, the Company conducted an assessment of impairment triggers for the Company's CGUs. After assessing all relevant impairment triggers the Company concluded that there were no indicators of impairment.

**(b) Canada**

For the purposes of calculating depletion for the three months ended June 30, 2013, petroleum and natural gas properties in Canada include estimated future development costs of $2.8 million (December 31, 2012 - $2.8 million) associated with the development of the Company's proved plus probable reserves.

**(c) Turkey**

For the purposes of calculating depletion for the three months ended June 30, 2013, petroleum and natural gas properties in Turkey include estimated future development costs of $63.7 million (December 31, 2012 – $57.8 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.

## 5. Share Capital

**(a) 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 share options are as follows:

| | Number of Options | Weighted average exercise price |
|---|---|---|
| Balance, December 31, 2012 | 3,379,000 | $ 2.46 |
| Granted | 1,689,500 | 1.00 |
| **Balance, June 30, 2013** | **5,068,500** | **$ 1.97** |
| **Exercisable at June 30, 2013** | **2,110,460** | **$ 2.49** |

The following table summarizes information about the stock options outstanding at June 30, 2013:

| Exercise prices | Outstanding at June 30, 2013 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at June 30, 2013 | Weighted average exercise price |
|---|---|---|---|---|---|
| $1.00 - $1.23 | 1,689,500 | 6.7 | $ 1.00 | - | $ - |
| $1.24 - $2.15 | 2,021,639 | 4.7 | $ 2.01 | 1,272,883 | $ 2.02 |
| $2.16 - $3.65 | 1,357,361 | 4.9 | $ 3.12 | 837,577 | $ 3.19 |
| | 5,068,500 | 5.4 | $ 1.97 | 2,110,460 | $ 2.49 |

(thousands of Canadian Dollars, unaudited)

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

| Assumptions | **June 30, 2013** | December 31, 2012 |
|---|---|---|
| Risk free interest rate (%) | **1.5** | 1.6 |
| Expected life (years) | **4.5** | 4.5 |
| Expected volatility (%) | **100.0** | 100.0 |
| Forfeiture rate (%) | **5.0** | 5.0 |
| Weighted average fair value of options | **$ 0.72** | $ 1.46 |

**(b) Performance warrants**

Valeura has issued the following performance warrants to directors, officers and certain employees of the Company:

| | Number of Performance Warrants | Weighted average exercise price |
|---|---|---|
| **Balance, December 31, 2012 and June 30, 2013** | **2,796,750** | **$ 2.00** |
| **Exercisable at June 30, 2013** | **2,796,750** | **$ 2.00** |

The following table summarizes information about the performance warrants outstanding at June 30, 2013:

| Exercise prices | Outstanding at June 30, 2013 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at June 30, 2013 | Weighted average exercise price |
|---|---|---|---|---|---|
| $2.00 | 2,796,750 | 1.5 | $ 2.00 | 2,796,750 | $ 2.00 |

The fair value, at the grant date, of the post-consolidation performance warrants issued was estimated using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Fair value of performance warrants granted ($/warrant) | 1.50 |
| Risk-free interest rate (%) | 2.5 |
| Expected life (years) | 4.5 |
| Expected volatility (%) | 110 |
| Expected forfeiture (%) | 5 |
| Expected dividend yield (%) | 0 |

**(c) Share purchase warrants**

As at June 30, 2013, there are 13,269,217 post-consolidation share purchase warrants outstanding, entitling the holder to acquire one common share at a price of $5.50 per common share until February 28, 2016. The Company has the right to accelerate the expiry of the warrants to 30 days from the date of notice if the 20 day volume weighted average price of the Company's common shares on the TSX is equal to or greater than $11.00 per common share. The fair value of the warrants was estimated using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Fair value of warrants granted ($/warrant) | 0.45 |
| Risk-free interest rate (%) | 2.2 |
| Expected life (years) | 5.0 |
| Expected volatility (%) | 100 |

(thousands of Canadian Dollars, unaudited)

## 6. Segmented Information

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Petroleum and natural gas revenue | | | | |
| Canada | **$ 233** | $ 290 | **$ 473** | $ 668 |
| Turkey | **4,664** | 6,574 | **9,272** | 13,006 |
| | **4,897** | 6,864 | **9,745** | 13,674 |
| Net income (loss) | | | | |
| Canada | **(1,621)** | (1,453) | **(3,179)** | (4,459) |
| Turkey | **(607)** | 701 | **133** | 1,367 |
| | **(2,228)** | (752) | **(3,046)** | (3,092) |
| Capital expenditures | | | | |
| Canada | **20** | 8 | **60** | 200 |
| Turkey | **6,283** | 10,685 | **12,688** | 19,181 |
| | **$ 6,303** | $ 10,693 | **12,748** | 19,381 |
| Total assets | | | | |
| Canada | | | **17,270** | 29,433 |
| Turkey | | | **101,716** | 95,516 |
| | | | **$ 118,986** | $ 124,949 |

## 7. Commitments

On August 31, 2011, the Company entered into a two-year sublease agreement for office space in Calgary commencing on November 1, 2011 and expiring on October 31, 2013. The total amount committed under this sublease was approximately $0.4 million which includes an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.1 million as at June 30, 2013.

On October 26, 2012, Valeura entered into a further two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1 million, including an estimate for operating costs over the term of the lease.