



Yamalick-1, Turkey

**Condensed Interim Consolidated Financial Statements (unaudited)
as at September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018**

Condensed Interim Consolidated Statements of Financial Position

(thousands of Canadian Dollars, unaudited)	September 30, 2019	December 31, 2018
Assets		
Current Assets		
Cash	\$ 50,957	\$ 62,380
Accounts receivable	13,912	9,242
Prepaid expenses and deposits	1,320	2,090
Inventory	273	195
	66,462	73,907
License deposit <i>(note 3)</i>	115	127
Restricted cash <i>(note 3)</i>	342	274
Right of use lease asset <i>(note 8)</i>	88	-
Exploration and evaluation assets <i>(note 4)</i>	14,423	9,385
Property, plant and equipment <i>(note 5)</i>	31,729	44,630
	\$ 113,159	\$ 128,323
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 13,675	\$ 14,387
Lease Liability <i>(note 8)</i>	80	-
Decommissioning obligations <i>(note 6)</i>	8,100	15,821
Deferred taxes	1,944	1,896
Shareholders' Equity		
Share capital <i>(note 7)</i>	205,762	205,320
Contributed surplus	21,963	20,123
Accumulated other comprehensive loss	(46,265)	(42,561)
Deficit	(92,100)	(86,663)
	89,360	96,219
	\$ 113,159	\$ 128,323

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statements of Loss and Comprehensive Income (Loss)
For the three and nine months ended September 30, 2019 and 2018

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)				
Revenue (note 9)				
Petroleum and natural gas sales	\$ 2,860	\$ 2,401	\$ 10,005	\$ 8,819
Royalties	(389)	(323)	(1,345)	(1,179)
Other Income	542	571	1,827	1,432
	3,013	2,649	10,487	9,072
Expenses and other items				
Production	857	654	2,902	2,748
General and administrative	495	558	2,529	3,299
Transaction costs (note 11)	63	-	1,307	287
Accretion on decommissioning liabilities	401	545	1,439	1,470
Foreign exchange (gain) loss	(559)	1,314	631	1,264
Share-based compensation	523	421	1,915	971
Depletion and depreciation (note 5 and 8)	1,260	1,507	4,762	5,373
	3,040	4,999	15,485	15,412
Loss for the period before income taxes	(27)	(2,350)	(4,998)	(6,340)
Income taxes				
Current tax expense	196	831	216	1,029
Deferred tax expense (recovery)	(4)	(534)	223	(883)
Net loss	(219)	(2,647)	(5,437)	(6,486)
Other comprehensive income (loss)				
Currency translation adjustments	1,085	(11,006)	(3,704)	(17,046)
Comprehensive income (loss)	866	(13,653)	(9,141)	(23,532)
Net loss per share				
Basic and diluted	\$ (0.00)	\$ (0.03)	\$ (0.06)	\$ (0.08)
Weighted average number of shares outstanding (thousands)	86,585	86,137	86,554	83,299

See accompanying notes to the condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2019 and 2018

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
(thousands of Canadian Dollars, unaudited)				
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	\$ (219)	\$ (2,647)	\$ (5,437)	\$ (6,486)
Depletion and depreciation	1,260	1,507	4,762	5,373
Share-based compensation	523	421	1,915	971
Accretion on decommissioning liabilities (note 6)	401	545	1,439	1,470
Unrealised foreign exchange (gain) loss	(598)	278	(51)	131
Deferred tax expense (recovery)	(4)	(534)	223	(883)
Decommissioning costs incurred (note 6)	(393)	(355)	(553)	(397)
Change in non-cash working capital (note 10)	(171)	(726)	(3,240)	(6,072)
Cash provided by (used in) operating activities	799	(1,511)	(942)	(5,893)
Financing activities:				
Payments under lease liability	(9)	-	(71)	-
Share issuance	-	-	-	60,004
Share issuance costs	-	-	-	(4,596)
Proceeds from stock option exercises	-	-	267	1,816
Cash provided by (used in) financing activities	(9)	-	196	57,224
Investing activities:				
Exploration and evaluation expenditures (note 4)	(483)	(3,448)	(7,780)	(5,064)
Property and equipment expenditures (note 5)	(585)	709	(3,051)	323
Banarli Farm-in (note 4)	-	-	1,930	-
Change in restricted cash	(8)	440	(68)	840
Change in non-cash working capital (note 10)	308	3,472	(851)	(3,454)
Cash provided by (used in) investing activities	(768)	1,173	(9,820)	(7,355)
Foreign exchange gain (loss) on cash held in foreign currencies	354	915	(857)	1,438
Net change in cash	376	577	(11,423)	45,414
Cash, beginning of period	50,581	55,945	62,380	11,108
Cash, end of period	\$ 50,957	\$ 56,522	\$ 50,957	\$ 56,522

See accompanying notes to the condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2019 and 2018

(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, 2019	86,233	\$ 205,320	\$ 20,123	\$ (86,663)	\$ (42,561)	\$ 96,219
Net loss for the period	-	-	-	(5,437)	-	(5,437)
Shares issued	352	442	(175)	-	-	267
Currency translation adjustments	-	-	-	-	(3,704)	(3,704)
Share-based compensation	-	-	2,015	-	-	2,015
September 30, 2019	86,585	\$ 205,762	\$ 21,963	\$ (92,100)	\$ (46,265)	\$ 89,360

(thousands of Canadian Dollars and thousands of shares, 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	-	-	-	(6,486)	-	(6,486)
Shares issued	12,989	63,057	(1,237)	-	-	61,820
Share Issuance Costs	-	(4,596)	-	-	-	(4,596)
Currency translation adjustments	-	-	-	-	(17,046)	(17,046)
Share-based compensation	-	-	1,072	-	-	1,072
September 30, 2018	86,137	\$ 205,155	\$ 19,692	\$ (86,029)	\$ (49,229)	\$ 89,589

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 and British Virgin Islands with branches in Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. On April 25, 2019, Valeura's shares also commenced trading on the Main Market of the London Stock Exchange ("LSE"), under the trading symbol "VLU". Valeura's head office address is 1200, 202 – 6 Avenue SW, Calgary, AB, Canada.

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, 2018, 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 16 – Leases. 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, 2018.

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, 2018 financial statements.

The unaudited condensed interim consolidated financial statements were authorised for issue by the Board of Directors on November 12, 2019.

(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, 2018 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 ("TL") 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 realised foreign exchange gain or loss which is recorded in net earnings.

(d) Changes in Significant Accounting Policies

(i) IFRS 16 Leases

Valeura adopted IFRS 16, Leases, on January 1, 2019 on a modified retrospective basis.

In January 2016, the IASB issued the complete IFRS 16 Leases ("IFRS 16") which replaces IAS 17, Leases. Under IFRS 16, a single recognition and measurement model applies for lessees which will require recognition of assets and liabilities for most leases. Valeura has elected to use the modified retrospective approach upon adoption and therefore the comparative information has not been restated. The Company has elected to apply the optional exemptions for short-term and low-value leases. The lease payments associated with these leases are recognised as expenses as incurred over the lease term.

The Company recognises a right-of-use asset ("ROU") and a lease liability at the lease commencement date. The ROU asset is initially measured at cost based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Valeura presents ROU as its own line item on the consolidated statement of financial position. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The average depreciation term is 1.5 to 2 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero. Lease payments are applied against the lease obligation, with a portion reflected as interest expense using the effective interest rate method. Valeura presents the lease liability as its own line item on the consolidated statement of financial position.

The effect of initially applying the standard was a \$0.2 million increase to the lease liability, with a corresponding ROU asset recorded. The ROU asset was measured at the amount equal to the lease liability on January 1, 2019 with no impact on deficit. The lease liability was measured at the present value of the remaining lease payments, discounted using Valeura's incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate used to determine the lease obligation on adoption was approximately 28% percent. The ROU assets and lease liabilities recognised relate to leases on the Company's offices and facilities in Turkey.

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

Incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the ROU assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

The table below shows the impact on the consolidated statement of loss upon adoption of IFRS 16 for the three and nine months ended September 30, 2019 is a reduction to loss for the period as follows:

	Three months ended		Nine months ended	
Cost	September 30, 2019		September 30, 2019	
Depreciation of right of use asset	\$	(21)	\$	(65)
Interest Expense		(6)		(22)
Lease Payments		32		94
	\$	5	\$	7

Cash flow from financing activities for the nine months ended September 30, 2019 was \$0.07 million lower due to the deduction of the lease and interest payments reflected in this section while cash flow from operating activities increased \$0.07 million.

(e) Use of estimates

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 influenced by political and economic factors. 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. Significant changes could occur which could materially impact the assumptions and estimates made in these consolidated financial statements. Changes in assumptions are recognised in the financial statements prospectively.

3. Restricted Cash and Licence Deposits

The Company has restricted cash in the amount of \$0.3 million (December 31, 2018 - \$0.3 million) that is securing licence deposits with the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA"), and a further \$0.1 million (December 31, 2018 - \$0.1 million) on deposit with the GDMPA. This restricted cash and deposit is security for decommissioning or abandonment obligations and ongoing work programmes on the Company's Turkish licences. These deposits and restricted cash equal the amount to satisfy the underlying commitments with the GDMPA and there are no other outstanding commitments. As the expected abandonment date and work programmes for these assets is more than one year from September 30, 2019, this restricted cash and deposit have been classified as non-current in the Company's financial statements.

Effective April 10, 2019, the Company renewed its Account Performance Security Guarantee ("APSG") facility with Export Development Canada ("EDC"). The APSG, which was issued to National Bank of Canada ("NBC") allows the Company to use the APSG as collateral for certain letters of credit issued by NBC. The facility is effective from April 10, 2019 to March 31, 2020 with a limit of US\$4.5 million and can be renewed on an annual basis. The Company has issued approximately US\$2.5 million in letters of credit under the APSG facility.

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

4. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2018	\$ 9,385
Banarli Farm-in	(1,930)
Additions	7,780
Capitalised share-based compensation	101
Effects of movements in exchange rates	(913)
Balance, September 30, 2019	\$ 14,423

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.

Phase 2 of the Banarli Farm-in was a commitment to complete a 3D seismic programme with a minimum cost of at least US\$10 million. The final cost total for the Karaca 3D seismic programme, agreed by partners in Q1 2019 totaled US\$8.5 million, requiring an additional payment from Equinor to Valeura of US\$1.5 million (\$1.9 million), which is recorded as an additional farm-in payment against exploration and evaluation assets.

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 recognises 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 recognised 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.

5. Property, Plant and Equipment

Cost	Total
Balance, December 31, 2018	\$ 86,515
Additions	3,051
Change in decommissioning obligations (<i>note 6</i>)	(7,136)
Effects of movements in exchange rates	(8,051)
Balance, September 30, 2019	\$ 74,379

Accumulated depletion and depreciation	Total
Balance, December 31, 2018	\$ 41,885
Depletion and depreciation expense	4,697
Effects of movements in exchange rates	(3,932)
Balance, September 30, 2019	\$ 42,650

Net book value	Total
Balance, December 31, 2018	\$ 44,630
Balance, September 30, 2019	\$ 31,729

(a) 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.

(b) Depletion - future development costs

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of \$151.1 million (December 31, 2018 – \$155.0 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.

The Company signed an agreement during the quarter to dispose of its non-producing Edirne assets for nominal consideration. This disposal is contingent on approval of the license transfer by the GDMPA and as such no amount has been booked.

6. Decommissioning Obligations

Cost	Total
Decommissioning obligations, beginning of period	\$ 15,821
Obligations incurred	-
Obligations settled	(553)
Change in estimates	(7,135)
Accretion of decommissioning obligations	1,439
Effects of movements in exchange rates	(1,472)
Balance, September 30, 2019	\$ 8,100

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The change in estimate is due to a decrease in the inflation rate, which has the effect of decreasing the obligation and a decrease to the discount rate which has the effect of increasing the obligation.

7. Share Capital

(a) Issued

	Number of Shares	Amount
Common shares		
Balance, December 31, 2018	86,232,988	\$ 205,320
Shares issued pursuant to exercise of stock options	352,001	442
Balance, September 30, 2019	86,584,989	\$ 205,762

(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 and nine months ended September 30, 2019 is 86,584,989 and 86,554,070 respectively (September 30, 2018 – 86,136,988 and 83,298,646 respectively). The average

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

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 programme 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 outstanding, December 31, 2018	4,598,667	\$ 1.57
Granted	1,725,000	3.03
Exercised	(352,001)	0.76
Forfeited	(150,000)	3.51
Balance outstanding, September 30, 2019	5,821,666	2.01
Exercisable at September 30, 2019	3,081,673	\$ 1.13

The following table summarises information about the stock options outstanding and exercisable at September 30, 2019:

Exercise prices	Outstanding at September 30, 2019	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2019	Weighted average exercise price
\$0.57 - \$0.66	1,152,500	2.06	\$ 0.60	1,152,500	\$ 0.60
\$0.67 - \$0.74	738,333	4.20	0.72	498,336	0.72
\$0.75 - \$2.01	1,343,333	3.59	0.80	1,093,333	0.81
\$1.86 - \$3.81	1,575,000	6.42	2.99	-	-
\$3.82 - \$4.62	1,012,500	5.51	4.61	337,504	4.62
	5,821,666	4.46	\$ 2.01	3,081,673	\$ 1.13

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

Assumptions	September 30, 2019	December 31, 2018
Risk free interest rate (%)	1.7	2.1
Expected life (years)	4.5	4.5
Expected volatility (%)	86.5	83.7
Forfeiture rate (%)	4.5	3.4
Weighted average fair value per option	\$ 2.01	\$ 2.96

8. Leases

	September 30, 2019
Right of use asset leases – real estate	
Balance, January 1, 2019	\$ 153
Depreciation	(65)
Balance, September 30, 2019	\$ 88

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

Lease liability – real estate	September 30, 2019
Balance, January 1, 2019	\$ 153
Interest	22
Principal payments	(94)
Effect of movement in exchange rates	(1)
Balance, September 30, 2019	\$ 80

All leases disclosed above have terms between 14 and 18 months.

In addition to the leases disclosed above the Company has a number of leases with terms of 12 months or less. Total commitments under these short term leases at September 30, 2019 are \$0.5 million. Total lease expenses included in the financial statements related to these contracts are as follows:

	Three months ended	Nine months ended
	September 30, 2019	September 30, 2019
Cost		
Operating expenses	\$ 81	\$ 284
General and administrative expenses	1	4
Exploration and evaluation costs	4	9
Property, plant and equipment costs	12	32
	\$ 98	\$ 329

	Three months ended	Nine months ended
	September 30, 2019	September 30, 2019
Total Cash outflow, leases		
Principal payments	\$ 32	\$ 94
Interest payments	6	22
Payments under short term leases	116	329
	\$ 154	\$ 445

9. Revenue

Under the contracts, the Company is required to deliver a variable volume of natural gas to the contract counter party. Revenue is recognised when a unit of production is delivered to the contract counterparty. The amount of revenue recognised 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 12th and 25th 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 recognised 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

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

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.

Interest and other revenue is comprised mainly of interest on cash in hand.

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		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Natural Gas	\$ 2,728	\$ 2,401	\$ 9,710	\$ 8,633
Crude Oil	132	-	295	186
Petroleum and natural gas sales	\$ 2,860	2,401	\$ 10,005	\$ 8,819

	Three Months ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Royalties – natural gas	\$ 341	\$ 300	\$ 1,214	\$ 1,078
Crude oil	20	-	33	16
Gross overriding royalty	28	23	98	85
Royalties	\$ 389	323	\$ 1,345	\$ 1,179

	Three Months ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Third party natural gas sales net of costs	\$ 187	\$ 196	\$ 658	\$ 625
Interest and other revenue	355	375	1,169	807
Other income	\$ 542	571	\$ 1,827	\$ 1,432

10. Supplemental Cash Flow Information

	Three Months ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Change in non-cash working capital:				
Accounts receivable	\$ (6,438)	\$ 2,088	\$ (4,670)	\$ 142
Prepaid expenses and deposits	330	(3,794)	770	(4,730)
Inventory	(27)	56	(78)	89
Deposits (non-current)	(3)	36	12	58
Accounts payable and accrued liabilities	5,996	6,187	(712)	(3,003)
Movements in exchange rates	279	(1,827)	587	(2,082)
	\$ 137	\$ 2,746	\$ (4,091)	\$ (9,526)
The change in non-cash working capital has been allocated to the following activities:				
Operating	(171)	(726)	(3,240)	(6,072)
Investing	308	3,472	(851)	(3,454)
	\$ 137	\$ 2,746	\$ (4,091)	\$ (9,526)

11. Transaction Costs

During the three and the nine months ended September 30, 2019 the Company recorded transaction costs of \$0.1 million and \$1.3 million respectively. The 2019 transaction costs are fees related to the Company's listing on the London Stock Exchange and a final success fee payment for the Banarli Farm-in.

12. 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 analyse 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:

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

As at	September 30, 2019	December 31, 2018
Joint venture receivable from Equinor	\$ 7,854	\$ 3,486
Joint venture receivable from other partners	371	313
Revenue receivables from customers	2,881	3,485
Taxes receivable	2,708	1,958
Other receivables	98	-
Accounts receivable	\$ 13,912	\$ 9,242

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 credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas purchasers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company mitigates 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 programmes. The Company does not typically obtain collateral from petroleum and natural gas purchasers 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 maximising 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. Historically, any devaluation in the TL has been followed by a legislated increase in the posted BOTAS Reference Price for natural gas. However, devaluation of the TL without a corresponding increase in the natural gas reference price will have a negative impact on adjusted funds flow and could affect the ability of the Company to fund its capital programme in the future. Devaluation of the TL will also result in decreases in royalties, and operating expenses, all other things being equal.

The Company's seismic and drilling operations and related contracts in Turkey are predominantly based in USD for BGCA operations. Material increases in the value of the USD against the TL or CAD will negatively impact the Company's costs of drilling and completions activities. Future CAD/USD and CAD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three months and nine months ended September 30, 2019:

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

	Petroleum and natural gas revenues	Royalties	Production costs
+/- 1 percent change in realised TL/CAD exchange rate			
Three months ended September 30, 2019	\$ 30	\$ 4	\$ 9
Nine months ended September 30, 2019	\$ 106	\$ 13	\$ 29

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 nine months ended September 30, 2019:

	Capital expenditures
+/- 1 percent change in realised TL/USD exchange rate, upon conversion to presentation currency	
Three months ended September 30, 2019	\$ 4
Nine months ended September 30, 2019	\$ 90

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.

The natural gas reference price in Turkey is in part correlated to contract prices for natural gas imports into Turkey and also government policy with respect to subsidies to consumers. Natural gas sales for Valeura are under direct sales contracts to industrial buyers and power generation companies in the area and each contract is at a negotiated discount or premium to the BOTAS benchmark price.

The government has continued to increase the BOTAS reference price thereby offsetting the decline in the value of the TL and reflecting the increase in regional gas prices, resulting in five price increases since the beginning of 2018. The Company's average realised natural gas price in Turkey for the first nine months of 2019 was \$9.08/mcf which represents a 1.0% discount to the BOTAS price. BOTAS recently announced a 15% increase to the reference price effective August 1, 2019, the first increase in 2019, to an equivalent of \$10.35/mcf resulting in an average realized price for Q3, 2019 of \$9.64/Mcf.

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 expenditures include 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

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2019 and 2018
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

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 as it maintains operatorship over all of its lands in the Thrace Basin. This could change in mid 2020 if Equinor completes its earning obligations under the Banarli farm-in and requests operatorship of the deep operations. There is a risk that Equinor could propose a more significant drilling programme including a more extensive pilot project, for which the Company would have to contribute its participating interest (50% for Banarli and 31.5% for West Thrace). However, Valeura has rights under the farm-in agreement to limit the drilling program and any work program is also subject to the approval process and protections/rights in the joint operating agreement. The Company has working capital of approximately \$52.3 million at September 30, 2019 in order to meet commitments of the current capital programme. If a more significant programme is proposed, the Company will be required to assess alternatives including the availability of equity and debt capital to fund the programme.

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 utilised bank loans or debt capital to finance capital expenditures to date.