



Yamalik-1, Turkey

**Consolidated Financial Statements**  
**Years ended December 31, 2019 and 2018**

**(In U.S. Dollars)**

## MANAGEMENT'S REPORT

The management of Valeura Energy Inc. is responsible for the preparation of all information included in the consolidated financial statements and Management's Discussion & Analysis ("MD&A"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information that is presented in the MD&A is consistent with the consolidated financial statements.

In preparation of the consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been presented fairly in all material respects.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the presentation of the consolidated financial statements.

KPMG LLP, an independent firm of chartered professional accountants, was appointed by the shareholders to audit the consolidated financial statements of Valeura Energy Inc. and provide an independent professional opinion. Their report is presented with the consolidated financial statements herein.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of independent directors. Valeura Energy Inc.'s Board of Directors has approved the consolidated financial statements based on the recommendation of the Audit Committee.

(signed) "Sean Guest"  
President and CEO

(signed) "Heather Campbell"  
CFO

March 12, 2020

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Valeura Energy Inc.

## **Opinion**

We have audited the consolidated financial statements of Valeura Energy Inc. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019, December 31, 2018 (re-stated) and January 1, 2018 (re-stated)
- the consolidated statements of loss and comprehensive loss for the years ended December 31, 2019 and 2018
- the consolidated statements of changes in shareholders' equity for the years ended December 31, 2019 and 2018
- the consolidated statements of cash flows for the years ended December 31, 2019 and 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, December 31, 2018, and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with International Financial Reporting Standards ("IFRS").

## **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other Information**

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Jason Stuart Brown.

"KPMG LLP"

Chartered Professional Accountants

Calgary, Canada

March 12, 2020

**Consolidated Statements of Financial Position**

(thousands of US Dollars)	<b>December 31, 2019</b>	December 31, 2018 (restated <sup>1</sup> )	January 01, 2018 (restated <sup>1</sup> )
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	\$ 36,111	\$ 45,993	\$ 8,833
Accounts receivable	5,590	6,814	3,222
Prepaid expenses and deposits	1,123	1,541	1,098
Inventory	214	144	200
	<b>43,038</b>	54,492	13,353
Licence deposits (note 5)	-	94	130
Restricted Cash (note 5)	258	202	2,523
Right of use lease asset (note 9)	78	-	-
Exploration and evaluation assets (note 6)	4,006	6,920	6,077
Property, plant and equipment (note 7)	34,283	32,906	49,381
	<b>\$ 81,663</b>	\$ 94,614	\$ 71,464
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,393	\$ 10,608	\$ 10,632
Lease Liability (note 9)	69	-	-
Decommissioning obligations (note 8)	8,181	11,665	15,272
Deferred taxes (note 11)	1,702	1,398	1,965
Shareholders' Equity			
Share capital (note 13)	179,717	179,384	137,681
Contributed surplus	21,229	19,488	19,291
Accumulated other comprehensive loss	(49,273)	(47,389)	(38,356)
Deficit	(85,355)	(80,540)	(75,021)
	<b>66,318</b>	70,943	43,595
	<b>\$ 81,663</b>	\$ 94,614	\$ 71,464

<sup>1</sup> Restated for change in presentation currency (note 2)

See accompanying notes to the consolidated financial statements

Approved by the Board

(“Tim Marchant”)

Tim Marchant, Chairman, Director

(“Russell Hiscock”)

Russell Hiscock, Director

**Consolidated Statements of Loss and Comprehensive Loss  
For the years ended December 31, 2019 and 2018**

(thousands of US Dollars)	<b>December 31, 2019</b>	December 31, 2018 (restated <sup>1</sup> )
<b>Revenue (note 10)</b>		
Petroleum and natural gas sales	\$ 10,177	\$ 9,249
Royalties	(1,370)	(1,245)
Other Income	1,718	1,725
	<b>10,525</b>	9,729
<b>Expenses</b>		
Production	3,020	2,789
General and administrative (note 12)	2,350	2,913
Transaction costs	983	227
Accretion on decommissioning liabilities (note 8)	1,261	2,217
Foreign exchange (gain) loss	858	(401)
Share-based compensation (note 13)	1,766	1,162
Depletion and depreciation (note 7 and 9)	4,633	5,643
	<b>14,871</b>	14,550
Loss for the year before income taxes	<b>(4,346)</b>	(4,821)
Income taxes (note 11)		
Current tax expense	-	645
Deferred tax expense	469	53
<b>Net loss</b>	<b>(4,815)</b>	(5,519)
Other comprehensive loss		
Currency translation adjustments	(1,884)	(9,033)
<b>Comprehensive loss</b>	<b>(6,699)</b>	(14,552)
Net loss per share (note 13)		
Basic and diluted	\$ (0.06)	\$ (0.07)
Weighted average number of shares outstanding (thousands)	<b>86,562</b>	83,659

<sup>1</sup> Restated for change in presentation currency (note 2)

See accompanying notes to the consolidated financial statements



**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2019 and 2018**

(thousands of US Dollars)	December 31, 2019	December 31, 2018 (restated <sup>1</sup> )
Cash was provided by (used in):		
<b>Operating activities:</b>		
Net loss for the year	\$ (4,815)	\$ (5,519)
Depletion and depreciation (note 7)	4,633	5,643
Share-based compensation (notes 13)	1,766	1,162
Accretion on decommissioning liabilities (note 8)	1,261	2,217
Unrealized foreign exchange (gain) loss	427	(767)
Deferred tax expense (note 11)	469	53
Decommissioning costs incurred (note 8)	(554)	(406)
Change in non-cash working capital (note 15)	(1,615)	(2,862)
Cash (used in) provided by operating activities	1,572	(479)
<b>Financing activities:</b>		
Payment under lease liability	(75)	-
Share issuance	-	47,450
Share issuance costs	-	(3,635)
Proceeds from stock option exercises	201	1,480
Cash provided by financing activities	126	45,295
<b>Investing activities:</b>		
Property and equipment expenditures (note 7)	(3,355)	46
Exploration and evaluation expenditures (note 6)	(8,446)	(6,190)
Banarli Farm-in payments received	1,452	-
Change in restricted cash	(62)	2,321
Change in non-cash working capital (note 15)	(1,740)	(2,095)
Cash used in investing activities	(12,151)	(5,918)
Foreign exchange gain (loss) on cash held in foreign currencies	571	(1,738)
<b>Net change in cash and cash equivalents</b>	<b>(9,882)</b>	<b>37,160</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>45,993</b>	<b>8,833</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 36,111</b>	<b>\$ 45,993</b>

<sup>1</sup> Restated for change in presentation currency (note 2)

See accompanying notes to the consolidated financial statements





**Consolidated Statements of Changes in Shareholders' Equity**  
**For the years ended December 31, 2019 and 2018**

(thousands of US Dollars and thousands of shares)	Number of common Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2019 <sup>(1)</sup>	86,233	\$ 179,384	\$ 19,488	\$ (80,540)	\$ (47,389)	\$ 70,943
Net loss for the year	-	-	-	(4,815)	-	(4,815)
Shares issued	352	333	(132)	-	-	200
Shares issuance costs	-	-	-	-	-	-
Currency translation adjustments	-	-	-	-	(1,884)	(1,884)
Share-based Compensation	-	-	1,873	-	-	1,873
<b>December 31, 2019</b>	<b>86,585</b>	<b>\$ 179,717</b>	<b>\$ 21,229</b>	<b>\$ (85,355)</b>	<b>\$ (49,273)</b>	<b>\$ 66,318</b>

(thousands of US Dollars and thousands of shares) (restated <sup>1</sup> )	Number of common Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2018 <sup>(1)</sup>	73,148	\$ 137,681	\$ 19,291	\$ (75,021)	\$ (38,356)	\$ 43,595
Net loss for the year	-	-	-	(5,519)	-	(5,519)
Shares issued	13,085	45,337	(1,011)	-	-	44,326
Shares issuance costs	-	(3,634)	-	-	-	(3,634)
Currency translation adjustments	-	-	-	-	(9,033)	(9,033)
Share-based Compensation	-	-	1,208	-	-	1,208
<b>December 31, 2018 <sup>(1)</sup></b>	<b>86,233</b>	<b>\$ 179,384</b>	<b>\$ 19,488</b>	<b>\$ (80,540)</b>	<b>\$ (47,389)</b>	<b>\$ 70,943</b>

<sup>1</sup> Restated for change in presentation currency (note 2)

See accompanying notes to the consolidated financial statements



**Notes to the Consolidated Financial Statements**  
**Years ended December 31, 2019 and 2018**

(tabular amounts in thousands of US Dollars, except share or per share amounts)

**1. Reporting Entity**

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

**2. Basis of Preparation**

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as at and for the years ended December 31, 2019 and 2018 and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 below.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion, depreciation and finance expenses are presented in separate lines by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and share-based compensation are presented by their nature in the notes to the consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on March 12, 2020.

**(b) Basis of measurement**

The 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 discussed in note 4.

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

**(c) Functional and presentation currency**

The consolidated financial statements are presented in US Dollars which is Valeura's reporting currency. Valeura's and its foreign subsidiaries transact in currencies other than the US Dollar and have a functional currency of Turkish Lira and Canadian dollars as follows:

Company	Functional Currency
Valeura Energy Inc.	Canadian Dollars
Valeura Energy (Netherlands) Cooperatief UA	Turkish Lira
Valeura Energy (Netherlands) BV	Turkish Lira
Corporate Resources BV	Turkish Lira
Thrace Basin Natural Gas Turkiye Corporation	Turkish Lira

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 statement of financial position. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive income or loss ("OCI") and are held within accumulated other comprehensive income or loss ("AOCI") until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in earnings.

#### *Change in presentation currency*

On December 31, 2019, the Company changed its presentation currency from Canadian Dollars ("CAD") to US Dollars ("USD") to better reflect the Company's business activities, the needs of investors and comparability to peers in the international oil and gas industry. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21 The Effects of Changes in Foreign Exchange Rates and have applied the change retrospectively as if USD had always been the Company's presentation currency, as follows:

- Assets and liabilities have been translated into USD at the rate of exchange prevailing at the respective reporting dates;
- The statements of loss and comprehensive loss were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- Equity transactions have been translated at the exchange rate prevailing at the date of the transaction; and
- Exchange differences arising on translation were recorded in accumulated other comprehensive loss in shareholders' equity.

The exchange rates used to restate comparative figures were as follows:

USD/CAD exchange rate	Dec 31, 2019	Dec 31, 2018	Jan 1, 2018
Closing rate at the reporting date	0.7690	0.7373	0.7952
Average for the period/year	0.7536	0.7719	0.7710

All comparative period amounts included in the financial statements have been restated to the change in presentation currency.

#### **(d) Use of estimates and judgments**

The preparation of consolidated 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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

#### *Critical judgments in applying accounting policies:*

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Valeura's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.
- Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based

on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

- The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.
- Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

*Key sources of estimation uncertainty:*

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

- Business combinations are accounted for using the acquisition method of accounting when the assets acquired meet the definition of a business in accordance with IFRS. The determination of fair value assigned to assets acquired and liabilities assumed often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of oil and gas properties and E&E assets acquired include estimates of reserves acquired, forecast benchmark commodity prices and discount rates used to present value future cash flows. Changes in any of the assumptions or estimates used in determining the fair value of assets acquired and liabilities assumed could impact the amounts assigned to assets and liabilities.
- Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation ("COGE") Handbook.
- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.
- The Company's estimate of share-based compensation is dependent upon estimates of historic volatility and forfeiture rates.
- The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.
- Costs associated with acquiring oil and natural gas licenses, carrying out seismic surveys and other technical studies and exploratory drilling are accumulated as exploration and evaluation ("E&E") assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgment and involves management's review of project economics, resource quantities, expected production techniques, production costs and required capital expenditures to confirm continued intent to develop and extract the underlying resources. Management uses the establishment of commercial reserves within the exploration area as the basis for determining technical feasibility and commercial viability. Upon determination of commercial reserves, E&E assets attributable to those reserves are tested for impairment and reclassified from E&E assets to a separate category within property, plant and equipment referred to as oil and natural gas properties.

**3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in the consolidated financial statements and have been applied consistently by the Company and its subsidiaries, except as described below.

**(a) Basis of consolidation**
*(i) Subsidiaries:*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in earnings.

*(ii) Jointly controlled operations and jointly controlled assets:*

A portion of the Company's exploration and development activities are conducted jointly with others. The joint interests are accounted for on a proportionate consolidation basis and as a result the financial statements reflect only the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows from these activities. Valeura has two joint venture arrangements as follows:

Name of the joint arrangement	Nature of the relationship with the joint arrangement	Principal place of business of joint arrangement	Proportion of participating share
TBNG Joint Venture	Operator	Turkey	81.5% (all rights)
Equinor Joint Venture	Operator	Turkey	50% on Banarli Licenses (deep rights); 31.5% on West Thrace Lands (deep rights)

*(iii) Transactions eliminated on consolidation:*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

**(b) Financial instruments**
*(j) Non-derivative financial instruments:*

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

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

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

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

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

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

*(ii) Share capital:*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**(c) Property, plant and equipment and exploration and evaluation assets**

*(i) Recognition and measurement:*

Exploration and evaluation expenditures:

Pre-licence costs are recognized in earnings as incurred. Exploration and evaluation (“E&E”) costs, including the costs of acquiring licences and directly attributable general and administrative costs, are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration CGU is conducted, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, the CGU within which the intangible exploration and evaluation assets attributable to those reserves is first tested for impairment and then the applicable value is reclassified from exploration and evaluation assets to property, plant and equipment. Proceeds on E&E assets are recorded against the recognized E&E balance, and no gain or loss is recognized.

Development and production costs:

Items of property, plant and equipment (“PP&E”), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in earnings.

*(ii) Subsequent costs:*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

*(iii) Depletion and depreciation:*

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20 percent to 50 percent per year.

*(iv) Exploration and evaluation expense:*

Upon determination that an exploration and evaluation CGU is impaired, the Company will transfer costs associated with the applicable CGU to exploration and evaluation expense in the period.

**(d) Impairment***(i) Financial assets:*

Loss allowances are recognized for expected credit losses ("ECL's) on its financial assets measured at amortized cost. Due to the nature of the financial assets, loss allowances are measured at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset.

*(ii) Non-financial assets:*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated via an impairment test.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, or CGUs. The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. E&E assets are allocated to related CGUs when they are assessed for



impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

**(e) Share based payments**

The grant date fair value of options and performance warrants granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

**(f) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

*(i) Decommissioning obligations:*

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

**(g) Revenue from contracts with customers**

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

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



**(h) Finance income and expenses**

Finance expense comprises interest expense on any borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in earnings using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period. Interest income is recognized as it accrues in earnings, using the effective interest method.

**(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 based on the prevailing rates in Turkey. 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

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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:

**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 year ended December 31, 2019 is a reduction to loss for the period as follows:

	Year ended	
Cost	December 31, 2019	
Depreciation of right of use asset	\$	(69)
Interest Expense		(21)
Lease Payments		97
	\$	7

Cash flow from financing activities for the year ended December 31, 2019 was \$0.07 million lower due to the deduction of the lease and interest payments reflected in this section while cash provided by operating activities increased \$0.07 million.

**(j) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(k) Earnings per share**

Basic per share amounts are calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

**4. Determination of Fair Values**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*(i) Property, plant and equipment ("PP&E") and intangible exploration and evaluation ("E&E") assets:*

The fair value of PP&E recognized in an acquisition, is based on fair values. The fair value of PP&E is the estimated amount for which property, plant & equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas interests (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The fair value of exploration and evaluation assets is estimated based on either internally or externally prepared evaluations of these assets.

*(ii) Cash, deposits, accounts receivable, accounts payable and accrued liabilities:*

The fair value of cash, deposits, accounts receivable, accounts payable and accrued liabilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, the fair value of these balances approximated their carrying values due to their short term to maturity.

*(iii) Stock options:*

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on the weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, the risk-free interest rate based on government bonds, and an estimated forfeiture rate.

**5. Restricted Cash**

The Company has restricted cash in the amount of \$0.3 million (2018 - \$0.2 million, January 1, 2018 - \$2.5 million) that is securing licence deposits with the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA"). This restricted cash is security for decommissioning or abandonment obligations and ongoing work programs on the Company's Turkish licences. The restricted cash equals the estimated amount to satisfy the underlying commitments with the GDMPA and there are no other outstanding commitments. As the expected abandonment date and work programs for these assets is more than one year from December 31, 2019, this restricted cash has been classified as non-current in the Company's financial statements.

**6. Exploration and Evaluation Assets**

Cost	Total
Balance, December 31, 2017	\$ 6,077
Additions	6,190
Transfers to property, plant and equipment ( <i>note 7</i> )	(3,167)
Capitalized share-based compensation	44
Effects of movements in exchange rates	(2,224)
<b>Balance, December 31, 2018</b>	<b>\$ 6,920</b>
Additions	8,446
Banarli Farm-in payments received	(1,452)
Transfer to property, plant and equipment ( <i>note 7</i> )	(8,878)
Capitalized share-based compensation	107
Effects of movements in exchange rates	(1,137)
<b>Balance, December 31, 2019</b>	<b>\$ 4,006</b>

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 \$10 million. The final cost total for the Karaca 3D seismic programme, agreed by partners totaled US\$8.5 million, requiring an additional payment from Equinor to Valeura of \$1.5 million in 2019, 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 recognizes a disposal of the partner’s working interest once the commitment has been met and the difference between the proceeds received and the carrying amount of the asset are recognized as a gain or loss in earnings for Property, Plant and Equipment assets and as a reduction of Exploration and Evaluation Assets for instances where the farm in is on undeveloped land.

**Recoverability of exploration and evaluation assets**

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, by allocating the E&E assets to appropriate CGUs. Valeura tested its E&E assets for any transfers during 2019 and there was no impairment on these transfer dates. At December 31, 2019, Valeura determined that no indicators of impairment existed with respect to the Company’s E&E assets.

Impairment of exploration and evaluation assets is recognized in earnings. E&E expense consists of exploration projects that are considered to have a lower fair value when compared to book value. E&E expense for the year ended December 31, 2019 was nil (2018 – nil).

**7. Property, Plant and Equipment**

Cost	Total
Balance, December 31, 2017	\$ 84,906
Additions	(46)
Transfer from exploration and evaluation assets ( <i>note 6</i> )	3,167
Change in decommissioning obligations ( <i>note 8</i> )	(3,315)
Effects of movements in exchange rates	(20,924)
<b>Balance, December 31, 2018</b>	<b>\$ 63,788</b>
Additions	3,355
Transfer from exploration and evaluation assets ( <i>note 6</i> )	8,878
Change in decommissioning obligations ( <i>note 8</i> )	(3,122)
Effects of movements in exchange rates	(6,773)
<b>Balance, December 31, 2019</b>	<b>\$ 66,126</b>

Accumulated depletion and depreciation	Total
Balance, December 31, 2017	\$ 35,525
Depletion and depreciation expense	5,643
Effects of movements in exchange rates	(10,286)
Balance, December 31, 2018	\$ 30,882
Depletion and depreciation expense	4,563
Effects of movements in exchange rates	(3,602)
<b>Balance, December 31, 2019</b>	<b>\$ 31,843</b>

Net book value	Total
Balance, December 31, 2018	\$ 32,906
<b>Balance, December 31, 2019</b>	<b>\$ 34,283</b>

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

**(a) Impairment testing**

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

The Company conducted an assessment of impairment triggers for the Company's one remaining CGU in the Thrace Basin of Turkey as at December 31, 2019 and concluded that there were no indicators of impairment. The triggers assessed were market capitalization compared to the carrying value of PP&E assets, reserve and resource value compared to the carrying value of PP&E assets, instability in the global oil and natural gas resource sectors, regional geopolitical factors, restricted access to capital markets, the level of inflation and interest rates, and the volatility of United States Dollar and Turkish Lira foreign exchange rates.

**(b) Contingencies**

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

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

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of \$114.6 million (December 31, 2018 – \$113.8 million) associated with development of the Company's proved plus probable reserves.

**8. Decommissioning Obligations**

	December 31, 2019	December 31, 2018
Decommissioning obligations, beginning of year	\$ 11,665	\$ 15,272
Obligations incurred	548	656
Obligations settled	(554)	(406)
Change in estimates	(3,669)	(3,971)
Accretion of decommissioning obligations	1,261	2,217
Effects of movements in exchange rates	(1,070)	(2,103)
Decommissioning obligations, end of year	\$ 8,181	\$ 11,665

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 following significant assumptions were used to estimate the decommissioning obligations:

	December 31, 2019	December 31, 2018
Undiscounted cash flows	\$ 23,432	\$ 57,962
Risk free rate – Turkey	12.0%	15.8%
Inflation rate – Turkey	11.8%	20.3%
Timing of cash flows	1-14 years	2-15 years

**9. Leases**

	December 31, 2019
Right of use asset leases – real estate	
Balance, January 1, 2019	\$ 122
Addition	31
Depreciation	(70)
Effect of movement in exchange rates	(5)
<b>Balance, December 31, 2019</b>	<b>\$ 78</b>

	December 31, 2019
Lease liability – real estate	
Balance, January 1, 2019	\$ 122
Addition	32
Interest	21
Principal payments	(97)
Effect of movement in exchange rates	(9)
<b>Balance, December 31, 2019</b>	<b>\$ 69</b>

All leases disclosed above have terms between 3 and 24 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 December 31, 2019 are \$0.1 million. Total lease expenses included in the financial statements related to these contracts are as follows:

Cost	December 31, 2019
Operating expenses	\$ 257
General and administrative expenses	4
Exploration and evaluation costs	10
Property, plant and equipment costs	30
	<b>\$ 301</b>

	December 31, 2019
Total Cash outflow, leases	
Principal payments	\$ 97
Interest payments	21
Payments under short term leases	300
	<b>\$ 418</b>

## 10. 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 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

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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.

	December 31, 2019	December 31, 2018
Natural gas	\$ 9,954	\$ 9,002
Crude oil	223	247
<b>Petroleum and natural gas sales</b>	<b>\$ 10,177</b>	<b>\$ 9,249</b>

	December 31, 2019	December 31, 2018
Royalties – natural gas	\$ 1,245	\$ 1,130
Crude oil	25	25
Gross overriding royalty	100	90
<b>Royalties</b>	<b>\$ 1,370</b>	<b>\$ 1,245</b>

	December 31, 2019	December 31, 2018
Third party natural gas sales net of costs	\$ 701	\$ 755
Interest and other revenue	1,017	970
<b>Other income</b>	<b>\$ 1,718</b>	<b>\$ 1,725</b>

**11. Income Taxes**

A reconciliation of the expected tax expense to the actual provision for current and deferred taxes is as follows:

	December 31, 2019	December 31, 2018
Loss before taxes from operations	\$ (4,346)	\$ (4,821)
Combined federal and provincial tax rate	27.00%	27.00%
Expected income tax recovery	(1,173)	(1,302)
Non-taxable items and other	(348)	693
Foreign tax rate differential	(86)	75
Change in unrecognized deferred tax assets	2,076	832
Tax Amnesty Payment	-	400
Income tax expense	\$ 469	\$ 698

The deferred income tax rate applied to the temporary differences in 2019 was 27.0 percent (2018 – 27.0 percent). The Turkish tax rate for 2019 and 2018 is 22%.



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The components of the deferred tax liability are as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment and exploration and evaluation assets	\$ (5,687)	\$ (5,692)
Decommissioning obligations	1,779	2,540
Non-capital losses and other	662	46
Foreign Exchange	1,544	1,708
	<b>\$ (1,702)</b>	<b>\$ (1,398)</b>

The temporary differences that determine the unrecognized deferred tax assets are as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment and exploration and evaluation assets	\$ 5,515	\$ 5,211
Share issuance costs	2,386	(805)
Non-capital losses and other	49,414	43,822
Foreign Exchange	(235)	(1,046)
	<b>\$ 57,080</b>	<b>\$ 47,182</b>

The Company has tax assets of approximately \$73.4 million at December 31, 2019 (2018 – \$63.0 million) available for deduction against future taxable income. Cumulative non-capital loss carry-forwards in the amount of \$52.4 million at December 31, 2019 (2018 - \$44.0 million) expire between 2019 and 2037.

A continuity of the deferred income tax liability for 2018 and 2019 is detailed in the following tables:

Movement in temporary differences during the year	December 31, 2017	Recognized in profit or loss	Other comprehensive income (loss)	December 31, 2018
Property, plant and equipment and exploration and evaluation assets	\$ (7,033)	\$ (830)	\$ 2,171	\$ (5,692)
Decommissioning obligations	3,044	473	(977)	2,540
Non-capital losses	410	(256)	(108)	46
Foreign exchange and other	1,616	551	(459)	1,708
	<b>\$ (1,963)</b>	<b>\$ (62)</b>	<b>\$ 627</b>	<b>\$ (1,398)</b>

Movement in temporary differences during the year	December 31, 2018	Recognized in profit or loss	Other comprehensive income (loss)	December 31, 2019
Property, plant and equipment and exploration and evaluation assets	\$ (5,692)	\$ (660)	\$ 665	\$ (5,687)
Decommissioning obligations	2,540	(479)	(282)	1,779
Non-capital losses	46	637	(21)	662
Foreign exchange and other	1,708	35	(199)	1,544
	<b>\$ (1,398)</b>	<b>\$ (467)</b>	<b>\$ 163</b>	<b>\$ (1,702)</b>

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Deferred income tax is a non-cash item relating to the temporary differences between the accounting and tax basis of Valeura's assets and liabilities and has no immediate impact on the Company's cash flows.

**12. Administrative Expenses**

The components of administrative expenses are as follows:

For the years ended	December 31, 2019	December 31, 2018
Cash:		
Salaries and benefits <sup>(1)</sup>	\$ 2,833	\$ 2,663
Other <sup>(2)</sup>	3,229	3,418
	6,062	6,081
Capitalized overhead and recoveries <sup>(3)</sup>	(3,712)	(3,168)
General and administrative	2,350	2,913
Non-cash:		
Share-based compensation	1,873	1,206
Capitalized share-based compensation <sup>(3)</sup>	(107)	(44)
Share-based compensation	\$ 1,766	\$ 1,162

<sup>(1)</sup> Includes salaries, benefits and bonuses earned by all Directors, Officers and employees of the Company.

<sup>(2)</sup> Includes costs such as rent, professional fees, insurance, travel, office, and other business expenses incurred by the Company.

<sup>(3)</sup> Includes a portion of salaries, benefits, share-based compensation and other G&A directly attributable to the exploration and development activities of the Company.

Compensation for Executive Officers and Directors are comprised of the following:

For the years ended	December 31, 2019	December 31, 2018
Salaries and benefits <sup>(1)</sup>	\$ 1,520	\$ 1,506
Share-based compensation <sup>(2)</sup>	1,499	926
Executive Officers and Directors compensation	\$ 3,019	\$ 2,432

<sup>(1)</sup> Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprised of: Chairman of the Board, President and Chief Executive Officer, Vice President Finance and Chief Financial Officer, Chief Operating Officer, Vice President, Commercial and other independent Directors.

<sup>(2)</sup> Represents the amortization of share-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Company's Stock Option Plan.

The Company recorded transaction costs for the year ended December 31, 2019 of \$1.0 million. The 2019 transaction costs are fees related to the Company's listing on the LSE and a final success fee payment for the Banarli farm-in.

**13. Share Capital**
**(a) Authorized**

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

**(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 year ended December 31, 2019 is 86,561,863 (2018 –

83,658,687). As a result of the company incurring a net loss during each of the last two years, the average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

**(c) Stock options**

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

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

	Number of Options	Weighted average exercise price (CAD)
Balance, December 31, 2017	6,370,500	\$ 0.73
Granted	1,077,500	4.62
Exercised	(2,557,667)	0.75
Forfeited /cancelled	(291,666)	1.60
Balance, December 31, 2018	4,598,667	\$ 1.57
Granted	2,025,000	2.94
Exercised	(352,001)	0.76
Forfeited/cancelled	(434,999)	3.26
<b>Balance, December 31, 2019</b>	<b>5,836,667</b>	<b>\$ 1.97</b>
<b>Exercisable at December 31, 2019</b>	<b>3,081,673</b>	<b>\$ 1.13</b>

The following table summarizes information about the stock options outstanding at December 31, 2019:

Exercise prices (CAD)	Outstanding at December 31, 2019	Weighted average remaining life (years)	Weighted average exercise price (CAD)	Exercisable at December 31, 2019	Weighted average exercise price (CAD)
\$0.57 - \$0.66	1,152,500	1.8	\$ 0.60	1,152,500	\$ 0.60
\$0.67 - \$0.74	706,667	3.9	0.72	498,336	0.72
\$0.75 - \$1.69	1,343,333	3.3	0.80	1,093,333	0.81
\$1.70 - \$3.81	1,685,000	6.2	2.89	-	-
\$3.82 - \$4.62	949,167	5.3	4.62	337,504	4.62
	5,836,667	4.3	\$ 1.97	3,081,673	\$ 1.13

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

Assumptions	December 31, 2019	December 31, 2018
Risk free interest rate (%)	1.6	2.1
Expected life (years)	4.5	4.5
Expected volatility (%)	86.09	83.7
Forfeiture rate (%)	4.5	3.4
Weighted average fair value of options granted (CAD)	\$ 1.84	\$ 2.96

**14. Credit Facilities**

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.

**15. Supplemental Cash Flow Information**

	<b>December 31, 2019</b>	December 31, 2018
Change in non-cash working capital:		
Accounts receivable	\$ 1,225	\$ (3,592)
Prepaid expenses and deposits	418	(443)
Inventory	(70)	56
Deposits (non-current)	94	37
Accounts payable and accrued liabilities	(5,215)	(25)
Movements in exchange rates	193	(990)
	<b>(3,355)</b>	<b>(4,957)</b>

The change in non-cash working capital has been allocated to the following activities:

Operating	<b>(1,615)</b>	(2,862)
Investing	<b>(1,740)</b>	(2,095)
	<b>\$ (3,355)</b>	<b>\$ (4,957)</b>

**16. 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. Further quantitative disclosures are included throughout the consolidated financial statements.

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

**(a) Credit risk**

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

	December 31, 2019	December 31, 2018
Joint venture receivable from Equinor	\$ 1,249	\$ 2,570
Joint venture receivable from other partners	85	231
Revenue receivables from customers	2,155	2,569
Taxes receivable	2,101	1,444
Accounts receivable	\$ 5,590	\$ 6,814

*Trade and other receivables:*

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. 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 marketers. Joint venture receivables are typically collected within one to three months of the operator invoices being issued to the joint venture partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures.

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

**(b) Market risk**

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

*Foreign currency exchange rate risk:*

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. 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 will negatively impact the Company's costs of drilling and completions activities. Future USD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

Changes to the TL/USD exchange rate would have had the following impact on revenues, royalties and production costs for the year ended December 31, 2019:

	Petroleum and natural gas revenues	Royalties	Production costs
+/- 1 percent change in realized TL/CAD exchange rate			
Year ended December 31, 2019	\$ 108	\$ 13	\$ 30

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



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**Years ended December 31, 2019 and 2018**

(tabular amounts in thousands of US Dollars, except share or per share amounts)

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

Changes to the TL/USD exchange rate, would have had the following impact on capital expenditures for the year ended December 31, 2019:

	Capital expenditures
+/- 1 percent change in realized TL/USD exchange rate, upon conversion to presentation currency	
Year ended December 31, 2019	\$ 86

*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 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. Effective August 1, 2019 BOTAS announced a 15% increase to the reference price. The Company's average realised natural gas price in Turkey for the year ended December 31, 2019 was \$6.98/mcf which represents a 1.0% discount to the BOTAS price.

*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 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.

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.

**17. Subsequent Event**

On February 14, 2020 Equinor provided formal notice under the Joint Operating Agreements (JOAs) for both the Banarli Exploration licenses and the West Thrace Exploration licenses and the West Thrace Production Leases that they are withdrawing from the joint operations. Under the JOAs, Equinor's working interests reverts to the remaining partners in the blocks. This change of working interest between the parties must be approved by the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA") before it is finally effective. Valeura will retain operatorship and continue to have control and flexibility in planning its capital spend.