



Valeura Energy Inc.

Valeura First Quarter 2020 Results Conference Call

SPEAKERS' SCRIPT

Calgary, May 12, 2020: The following is the speakers' script for the Valeura Energy Inc. First Quarter 2020 Results Conference Call, held on May 12, 2020. An audio replay of the meeting webcast will be available shortly, with the link:

https://produceredition.webcasts.com/starthere.jsp?ei=1312681&tp_key=5a72d7796a

Corporate Speakers:

Sean Guest, President & Chief Executive Officer
Heather Campbell, Chief Finance Officer

Operator

[Introduction]

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

Introduction

Thank you Colin. Welcome to Valeura Energy's first quarter results conference call.

My name is Sean Guest, I am Valeura's President and Chief Executive Officer. Joining me here in Calgary are Heather Campbell, our CFO, Peter Sider, our COO, and Robin Martin, our IR manager.

As of this morning, we've filed our financial and operating results for Q1 2020. Everything's available on SEDAR and on our website.

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

I would also like to note that our AGM has been delayed until August 12th at 9am. Our goal is to have a normal AGM with shareholders all welcome to attend, but we will review the situation in early July to determine if this will be possible in light of the Covid-19 crisis and the restrictive measures on gatherings. Our information circular will be mailed in early July.

By way of agenda, after some introductory comments, I'll hand the call over to Heather who will take us through a financial review. After Heather, I'll come back to provide more a little more detail on Operations and will then, with the help of the operator, take any questions you might have.

Highlights

The first quarter was a period of unprecedented turmoil in the global markets, particularly when looking at energy markets and commodity prices. Everyone will recognise that there is significant uncertainty in how the world's economy will be managed going forward. However, while Valeura had to adapt our operations in light of Covid-19 the effects have been relatively minor and the first quarter was also a period where much of our uncertainty was clarified. Our business strategy and objectives going forward are very clear.

First, our shallow gas production business. The effects of Covid-19 on this business have been relatively minor as we still realised gas prices above \$7/mcf in Q1 and netbacks of approximately \$25/boe, and we have been able to maintain most of our gas production. Technical studies and field operations in Q4 19 and Q1 2020 have now yielded quarter on quarter production growth. When these studies conclude in Q2, they will underpin more drilling around year-end to convert reserves to production.

Second, the Company remains focused on the potential of our deep unconventional gas opportunity. Equinor officially exited the joint venture at the beginning of Q2, resulting in a doubling of Valeura's working interest at no cost and leaving us in full control of the play. Moving forward, we will engage an external advisor to drive our process to secure a new partner to participate in the play. In Q1, we also completed operations on Devepinar-1 to setup the well for an extended well test. We expect to recommence gas production from that well in early July.

Third, Valeura is financially very strong with no debt and \$34 million of working capital. We are in an enviable position as our own business is stable and cash flowing. However, the crash in oil and gas prices has created new opportunities and the potential for mergers and acquisitions. We are reviewing regional opportunities to understand how these rank against our own internal portfolio prior to making decisions on investment of our capital.

Finally, but most importantly, we continue to see the safety and well-being of our people and our contractors as paramount to the success of the business. We have implemented several new measures in response to the COVID-19 pandemic, including scaling back non-essential field work and implementing work-from-home arrangements wherever possible. Our production operations are continuing smoothly but we are ready to adapt as required depending on how this crisis continues to play out in Q2.

I'm going to speak more on operations in a moment, but at this point I'll hand the call over to Heather to talk about the financials.

Heather Campbell – Chief Executive Officer, Valeura Energy Inc.

Financial Review

Thanks Sean and hi everyone.

As Sean mentioned, from a financial standpoint, we are in a very strong position. We have no debt, and working capital is sitting at \$34.1 million, of which \$32.6 million is cash. While we still had positive cash flow from our operations in Q1, our cash position reduced by \$3.5 million from what we reported at the end of 2019. \$1.4 million of this difference relates to the foreign exchange effects of the strengthening US dollar in the last part of Q1 on our foreign currency cash balances, particularly Canadian dollars.

Our cash position was also affected by capital spending of \$1.9 million during the quarter, with approximately half related to the deep well program, particularly the last part of the Devepinar short-term production test and equipping the well to prepare it to be brought back on production for more testing. The other half relates to spending on studies and operations to increase production and the commencement of our two shallow commitment wells.

In addition, we saw some one-off spending in Q1 that is not expected in subsequent quarters, mainly related to severance payments. Going forward, we are working on reducing our gross G&A outlook as the business evolves. So, we're managing the business well, and continue to focus on driving more efficiency into how we operate.

Our Q1 production came in at 716 boe/d, which was an increase of 11% over the fourth quarter, and a direct outcome of the work we've done on well workovers and re-perfs last year and into the first part of Q1.

Price realisations have remained strong in Q1, and were unchanged on a Turkish Lira basis. However, like the cash position, a strengthening of the US dollar against other currencies affects our reported price realisations. We are reporting US\$7.08/Mcf, which is a reduction of 5% from Q4. With the continuing global economic crisis due to Covid-19, we are monitoring the pressure on the Turkish Lira and whether the government will respond with gas price increases as they have in past.

The offsetting effect of production being up 11% and prices down 5%, means our revenue came in 6% higher than the prior quarter, at \$2.8 million.

With that, I'll hand the call back over to Sean.

Sean Guest

Thanks Heather. I'd now like to give a little more colour on our operations and commercial outlook.

Production

As I mentioned at the beginning, we've managed to keep our production operations going smoothly, despite having to make operational changes in light of COVID-19. We even managed another modest increase in production during Q1.

Conversely, Q2 production rates are likely to see a little more of a headwind, as field activity remains on hold due to COVID-19 restrictions. Additionally, we expect there will be reduced gas demand due to a combination of Covid-19 effects and Ramadan, which lasts throughout most of May and is followed by a week of holidays in Turkey.

On a positive note, we understand that Turkey is looking to starting re-opening at the end of Ramadan in a few weeks.

Shallow

So while we're not actively conducting field workovers at the moment, we still have an inventory of opportunities to pursue once we can get back to field work. Fortunately, with all the equipment we need and a very capable workforce available in country, we can ramp up operations quickly once we have the all-clear.

In addition, our list of opportunities for the shallow production keeps on growing. We are just now completing an internal technical study that we started in Q3 2019 on shallow exploitation projects. This work has been encouraging as it has allowed us to focus our workover operations and we have increased production in the past 2 quarters. We have also identified additional drilling targets for later this year and beyond, all aimed at converting reserves into production. We will understand the full scope of this drilling campaign once the technical studies complete this quarter and we are able to verify the concepts with workover field operations.

We have also just finished drilling two exploration commitment wells – Kuzey Atakoy-4 and Bati Sariyer-1. Kuzey Atakoy-4 was drilled and logged, with wireline data showing clear indications of gas. At Bati Sariyer-1, we are currently preparing to run logs over the objective section, but have seen positive indications of hydrocarbons while drilling. We will need production test both wells to confirm the flow potential from the prospective zones identified. This work has been deferred until we are able to operate in the field to construct pipelines from the wells to our sales network.

Deep

For our tight deep gas appraisal play, we've effectively doubled our working interest following Equinor's exit. Valeura continues to see this play as a potential source of significant long-term gas production, and we remain as committed as ever. We accomplished a lot with Equinor as partner in a very cost-effective manner for Valeura, but we recognise that there's a lot more to do. It is still an appraisal play and will require more drilling and production testing.

We want to bring in an additional partner to do that, and will start working shortly with an advisor to secure the right candidate. The idea is to bring in someone who has the financial capability, but also importantly the correct technical background and experience in these unconventional plays. We are ready to go and obviously want to get started on this process as quickly as possible. However, it is prudent to wait a couple of months to allow some stability to return to our global industry.

In the meantime, our focus is on low-cost data collection. We are planning to go back to Devepinar-1 to do a long-term production test as soon as we can. In Q1, prior to Equinor's departure, we completed operations so that the wellbore is in the correct state for sustained production and we only require the correct surface equipment to test the well safely. With field operations and all travel paused back in March due to Covid-19, this hasn't progressed as quickly as we'd like. We have now adapted our plans and are hoping to have the well back on production in early July. Again, I caution that this will be dependent on our ability to carry out field operations and manage risks to our peoples' well-being.

Inorganic

As Heather mentioned, we're in a strong financial position, that can underpin value growth for Valeura. There are three pillars to that:

First, as I noted earlier, we are pursuing options to convert our Thrace Basin shallow reserves into production.

Second, we are looking for the right partner to continue pressing forward on our deep tight gas appraisal play which has vast upside.

Third, we are also reviewing inorganic growth opportunities. It is imperative that any use of our strong capital position provides the highest returns to our shareholders. We need to compare the returns from our own organic portfolio against the returns from regional M&A opportunities. The current market turmoil is likely to create opportunities, and we feel we're well positioned to be a potential acquirer. While nothing is ever guaranteed in the M&A market, we owe it to ourselves to keep an open mind to opportunities in the region that may offer a good strategic fit.

What does Valeura bring to any M&A discussions?

Cash and a strong balance sheet that can underpin production and cash flow growth;

A cash-flowing gas production asset with growth potential that is largely shielded from the current global pricing volatility;

Significant upside in a potentially massive unconventional project with proven gas flow; and finally,

A team with international experience who have demonstrated their ability to deliver complex projects safely and on budget in an international environment.

Conclusion

So in summary, I'll just remind you that we have a strong and resilient company, one that's positioned to not only continue generating cash throughout the current market, but has exposure to the potential for some very significant value upside.

We have been largely unaffected by the Covid-19 crisis and the turmoil and stress in the global energy markets. This has opened up opportunities for Valeura.

With that, I'll turn the call back over to the operator to help us with the Q&A session. Operator?

Operator

[Q&A Session]