# valeura energy inc.

## EXCEPTIONAL VALUE CREATION IN TURKEY

**Corporate Presentation**

**October 2020**

# Advisories

General Advisory The information contained in this presentation does not purport to be all-inclusive or contain all information that readers may require. Prospective investors are encouraged to conduct their own analysis and review of Valeura Energy Inc. ("Valeura", "VLE", the "Corporation", "us", "our" or "we") and of the information contained in this presentation. Without limitation, prospective investors should read the entire record of publicly filed documents relating to the Corporation, consider the advice of their financial, legal, accounting, tax and other professional advisors and such other factors they consider appropriate in investigating and analysing the Corporation. An investor should rely only on the information provided by the Corporation and is not entitled to rely on parts of that information to the exclusion of others. The Corporation has not authorised anyone to provide investors with additional or different information, and any such information, including statements in media articles about Valeura, should not be relied upon. In this presentation, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

An investment in the securities of Valeura is speculative and involves a high degree of risk that should be considered by potential investors. Valeura's business is subject to the risks normally encountered in the oil and gas industry and, more specifically, in Turkey, and certain other risks that are associated with Valeura's stage of development. An investment in the Corporation's securities is suitable only for those purchasers who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment.

Forward-looking Information This presentation contains certain forward-looking statements and information (collectively "forward-looking information") including, but not limited to: the timing to resume production enhancement work including workovers and reperforations; the timing to test the recently drilled exploration wells; the Company's ability to grow production and cash flow in the near/mid term through mergers and acquisitions; the timing and ability to secure a new partner for the deep, unconventional gas play; the potential for an deep unconventional gas play in the Thrace Basin and unlocking potential shareholder value with respect thereto; the costs, timelines, objectives and focus to resume drilling activity on the deep unconventional gas play in 2021 and the related well location permitting; management's assessment of the economic conditions and market fundamentals in Turkey; Valeura's business strategy and outlook; the ability to finance future developments; and the Corporation's ability to convert proved plus probable reserves into production and prospective resources into contingent resources and/or reserves. Forward-looking information typically contains statements with words such as "anticipate", estimate", "expect", "target", "potential", "could", "should", "would" or similar words suggesting future outcomes. The Corporation cautions readers and prospective investors in the Corporation's securities to not place undue reliance on forward-looking information, as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by the Corporation.

Statements related to "reserves" and "prospective resources" are deemed forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the prospective resources can be profitably produced in the future. Specifically, forward-looking information contained herein regarding "prospective resources" may include estimated volumes of prospective resources and the ability to finance future development.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: political stability of the areas in which the Corporation is operating and completing transactions; continued safety of operations and ability to proceed in a timely manner; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future seismic and drilling activity on the expected timelines; the prospectivity of the deep unconventional gas play and shallow gas plays on the TBNG joint venture lands and Banarli licences; the continued favourable pricing and operating netbacks in Turkey; future production rates and associated operating netbacks and cash flow; future sources of funding; future economic conditions; future currency exchange rates; the ability to meet drilling deadlines and other requirements under licences and leases; and the Corporation's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. In addition, the Corporation's work programmes and budgets are in part based upon expected agreement among joint venture partners and associated exploration, development and marketing plans and anticipated costs and sales prices, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of drilling, reservoir stimulation and other specialised oilfield equipment and service providers, changes in partners' plans and unexpected delays and changes in market conditions. Although the Corporation believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect.

Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those anticipated by the Corporation including, but not limited to: the risks of currency fluctuations; changes in gas prices and netbacks in Turkey; uncertainty regarding the contemplated timelines for the timelines and costs for the deep evaluation in 2018 and 2019; the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues, terrorist attacks, insurgencies or civil unrest in Turkey; political stability in Turkey, including potential changes in Turkey's constitution, political leaders or parties or a resurgence of a coup or other political turmoil; the uncertainty regarding government and other approvals; counterparty risk; potential changes in laws and regulations; risks associated with weather delays and natural disasters; the risk associated with international activity; and, the uncertainty regarding the ability to fulfil the drilling commitment on the West Thrace lands. The forward-looking information included in this presentation is expressly qualified in its entirety by this cautionary statement. The forward-looking information included herein is made as of the date hereof and Valeura assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law. See the 2017 AIF for a detailed discussion of the risk factors.

*RESERVES LIFE:* Reserves life is a measure of the volume of the Corporation's reserves divided by the annual average production.

*NOTE REGARDING INDUSTRY METRICS:* Boes, recycle ratios and reserve life are industry metrics which do not have standardised meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional information to evaluate the Corporation's performance; however, such measures are not reliable indicators of the future performance of the Corporation and future performance may not compare to the performance in previous periods and therefore such metrics should not be relied upon.

*ANALOGOUS INFORMATION:* Certain information in this presentation may constitute "analogous information" as defined in NI 51-101 with respect to the number of wells drilled, first year average production per well, initial production rates, EUR and production declines with respect to fields that have similar reservoir quality, depth, pressures and evidence of natural and stress induced fracturing to the Corporation's BCGA play. Management believes such information may be relevant to help demonstrate the potential of and the basis for Corporation's business plans and strategies with respect to its BCGA play. There is no certainty that the results of the analogous information or inferred thereby will be achieved by Valeura and such information should not be construed as an estimate of future production levels, reserves or the actual characteristics and quality of the BCGA play.

# Valeura Snapshot

## Assets

| | |
|---|---|
| **Production[1]** | 672 boe/d |
| **Resource[2]** | 20.0 Tcfe |
| **2P Reserves[3]** | 7.9 MM boe |
| **2P Value[3]** | $66.1 MM |
| **1P Reserves[3]** | 2.3 MM boe |
| **1P Value[3]** | **$23.8 MM** |
| **Land[4]** | 356,129 acres |

**Infrastructure** Valeura owns and operates all its gas gathering facilities and sales contracts.

## Financials and Performance

| | |
|---|---|
| **Debt** | nil |
| **Working Capital** | **$33.2 MM[1]** |
| **Gas price** | $6.24/Mcf[1] |
| **Netback** | $18.33/boe[5] |


## Capital Structure[6]

| | |
|---|---|
| **Shares o/s** | 86.6 MM |
| **Fully Diluted** | 95.0 MM |
| **Share Price** | C$0.325/share<br>£0.185/share |
| **Market Cap** | **$21.1 MM** |

## Corporate

**Canadian domiciled**

| | |
|---|---|
| **Dual-listed** | TSX:VLE<br>LSE:VLU |
| **Liquidity[7]** | ADTV 126k shares/day |

**Widely-held** One ~20% shareholder, next largest <5%

1. Q2 2020 production exit rate / Q2 2020 data
2. Valeura working interest, unrisked recoverable natural gas prospective resource per D&M report as of Dec. 31, 2018, adjusted for working interest after Equinor withdrawal in Q1 2020
3. As of Dec. 31, 2019, NPV at 10% after taxes
4. After Exit from the Edirne block, in Q1 2020. Deep rights are slightly less than the total acreage presented
5. Q2 2020 Average Operating Netback, normalised to exclude cost of Devepinar-1 testing, which has been recorded as opex
6. Based on TSX closing price and shares in issue as of September 28, 2020, and C$/US$: 0.749
7. 30-day average daily trading volume as of September 28, 2020 (Canadian consolidated + LSE)

Note: all dollar figures in US$ unless indicated otherwise

# Operational and Financial Highlights

## Performance and outlook

- Balance sheet is strong, working capital US$33.2 million
- Q2 average gas production 561 boe/d
  - Reduced gas demand due to impact of COVID-19 and national Eid holiday
  - Q2 production exit rate 672 boe/d
- Realised prices remain strong
  - Q2 prices unchanged in Turkish Lira -equates to US$6.24/Mcf
- Production enhancement activities restarted
  - Workover and reperforation programme resumed
  - Exploration wells to be tested
- Deep gas exploration licences extended

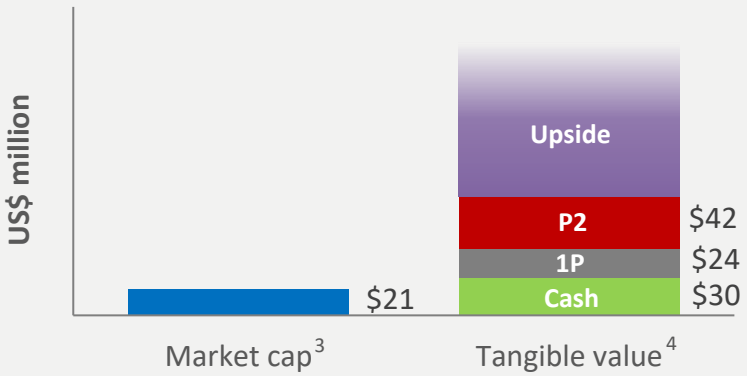
## COVID-19 Update

- Following best practices in offices and in production operations
- Office-based staff followed work from home directives as required
- Restrictions have eased in Turkey and office and operations returning to normal
- Company remains vigilant to the COVID-19 situation given recent global rise in cases

# Three-Pronged Strategy

## Context

- **Financially strong**
  - Working Capital $33.2 million[1] (Cash $30.5 million)
  - No debt
- **Undervalued**
  - Market cap 31% below cash value
  - Market cap 61% below cash + 1P value




## Strategy

### Production

- Conventional gas production business
- 672 boe/d production[2]
- High margin BOEs, >$6/Mcf price[1]

### Inorganic Growth

- Enviable financial position
- Internationally savvy team
- Greater Mediterranean focus
- Favourable M&A environment

### Upside

- Deep, tight gas play
- Very large prospective resource base, 20.0 Tcfe[4]
- Recently renewed licences
- Well locations ready

## Priority

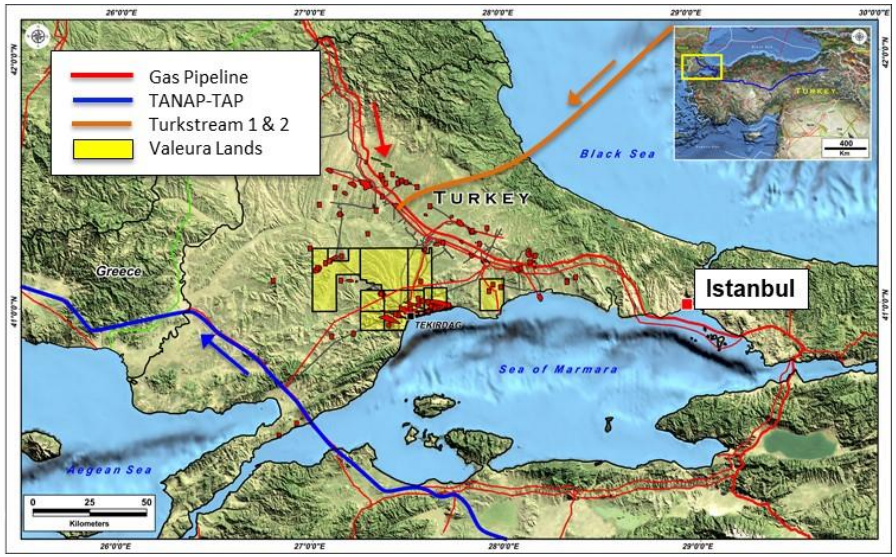
***Increase production and maximise efficiency for near-term cashflow and value***

***Grow production/cashflow in the near/mid-term through Mergers & Acquisitions***

***Continue appraisal (with new partner) to deliver value in the mid/long-term***

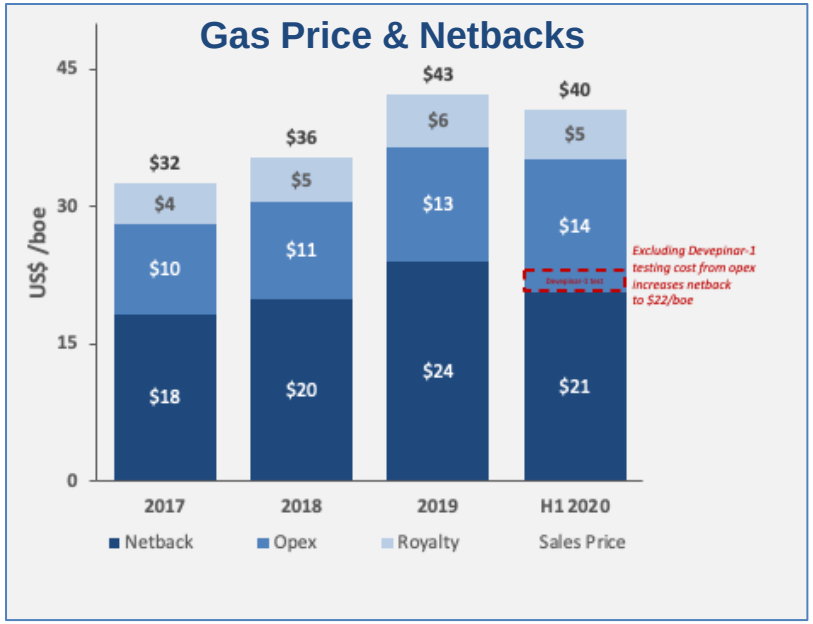
1. Q2 2020
2. Q2 2020 exit rate
3. Based on TSX closing price and shares in issue as of September 28, 2020, and C$/US$: 0.749
4. As of Dec. 31, 2019, NPV at 10% after taxes
5. Valeura working interest, unrisked recoverable natural gas prospective resource per D&M report as of Dec. 31, 2018, adjusted for working interest after Equinor withdrawal in Q1 2020.

# Stable gas production/cashflow with growth potential




- Valeura operates all gas production and assets
- All Valeura operations in Thrace Basin, west of Istanbul
- Oil field services all available in Thrace area - access to required drilling and completion equipment
- Proximal Transportation Infrastructure
  - Major highways through Tekirdag and connecting regional centres
  - Tekirdag port is a major import terminal
- Supportive government and regulator

- Turkey imports more than 99% of its gas
- Excellent and stable fiscal terms and gas prices
  - Gas price ~300% above Henry Hub or EU gas prices
  - Gas price more stable than EU price
- Valeura owns & operates local network of gas gathering, processing facilities and sales lines – *buy and market 3rd party gas*
- Significant new gas infrastructure to access Turkish domestic grid and possible export to Europe



# Planned gas production opportunities

## Growth Opportunities

### Workover/recompletion of Production wells

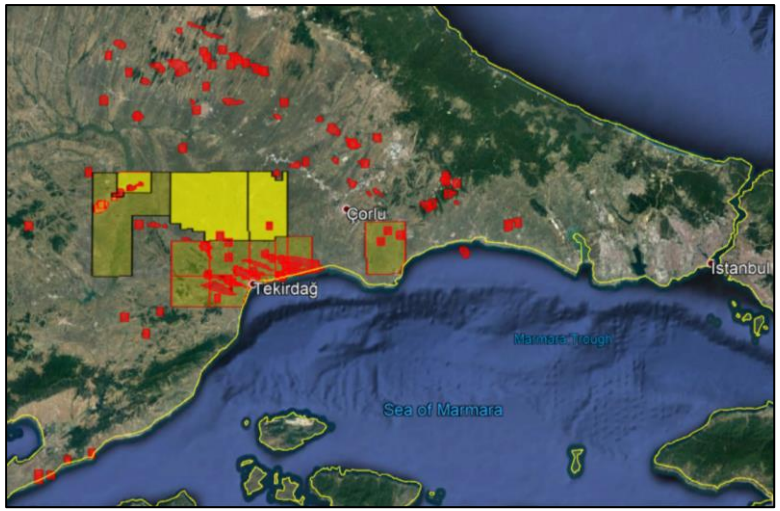
- Proven ability to offset natural field declines and increase production
- Focused work-over programme in Q4 2019/early Q1 2020 yielded low-cost production growth
  - Low risk/low capital with payback in few weeks or months
  - Program halted in late Q1 2020 due to COVID-19
  - Operations recommenced in Q3 2020

### Infill Development Drilling

- Technical desktop study concluded in Q2 2020 focused on converting Reserves to Production in main fields
- Studies identified stacked Mezardere and Teslimkoy Fm. targets and mapped up to 12 initial drilling locations
- Further locations/horizontal wells dependent on results of initial wells
- Final programme and well locations being prepared for submission to government for environmental approval
- Drill programme planned for year-end 2020 or early 2021 depending on approval and equipment

### Exploration Drilling

- Two exploration wells drilled in Q2 2020 to fulfill commitments
  - Production testing and tie-in planned
- 46 exploration prospects in portfolio but focus will continue on infill development drilling




## Key Facts

- Thrace Basin is a proven petroleum system ~ 1Tcf produced
- TBNG producing gas in the basin for several decades – recently stable gas production at >4 MMcfd net
- Booked D&M Reserves[1&2] – Valeura Working Interest
  - 1P reserves of 13.7 BCF (NPV @ 10% - $23.8 million)
  - 2P reserves of 47.5 BCF (NPV @ 10% - $66.1 million)

1. *Based on D&M reserves evaluation as of Dec. 31, 2019*
2. *Includes reserves for three deep wells of 1P 0.6 BCF, 2P 0.7 BCF and 3P 1.0 BCF*

# Growth via Merger and Acquisitions

## Vision

- Step-up Valeura in scale and materiality
- Add near-term/mid-term production growth and cash flow to Valeura's portfolio
- Focus on cash flow-generating opportunities, with follow-on development potential
- Re-invest near-term cashflows to support:
  - Further incremental production growth
  - Appraisal of the deep gas play

## Opportunity

- Valeura has a strong balance sheet with cash and no debt
- Current oil & gas market environment has created distressed players
  - Public equity markets are essentially closed for small and medium sized companies
  - Traditional debt sources are closed to smaller companies
- Leverage Valeura's cash with another company to yield strong near-term production and cashflow
  - Capital to reinvigorate stalled developments
  - Clean-up balance sheets to unlock cash flows

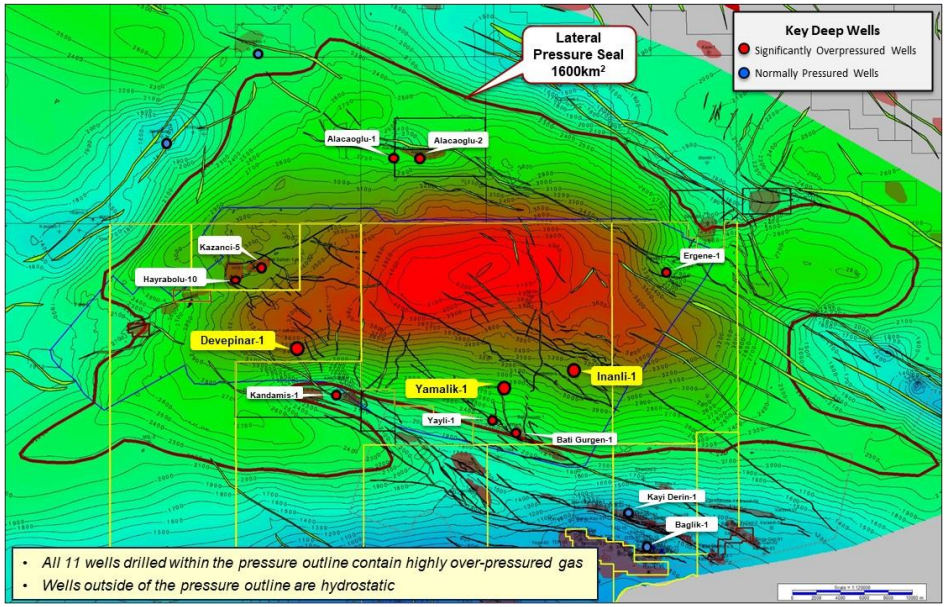

***Valeura is in a strong position to negotiate M&A transactions***

# Material upside from Deep, Unconventional Gas Play

- A core constituent of the Valeura portfolio
- Large play area of ~ 1,600 km$^2$ yields material opportunity with 20 Tcfe gas[1]
- Government approval in Q2 2020 of extensions for key exploration licences to June 2022 – *ample time for the next appraisal phase*
- Excellent technical dataset, based on >$100 million spent on appraisal to date – *well, core and seismic*
- Team has fully integrated learnings from drilling and testing results
  - Gas and reservoir are laterally pervasive with very significant gas volumes in place
  - Challenge in wells to date has been achieving a commercially sustainable flow rate
  - Best reservoir in upper few hundred metres of Kesan Fm.
  - Best gas flows from deeper zones with higher pressure, no condensate ("Dry Gas"), and minimal water flow
- Next appraisal well will target the overlap of these best characteristics

## Forward Plan

- Stellar Energy Advisors engaged to help secure a new partner – target YE 2020
- Hanoglu-1 appraisal well location identified and being submitted to government for permitting – additional follow up locations also submitted
- Resume drilling in the first half of 2021

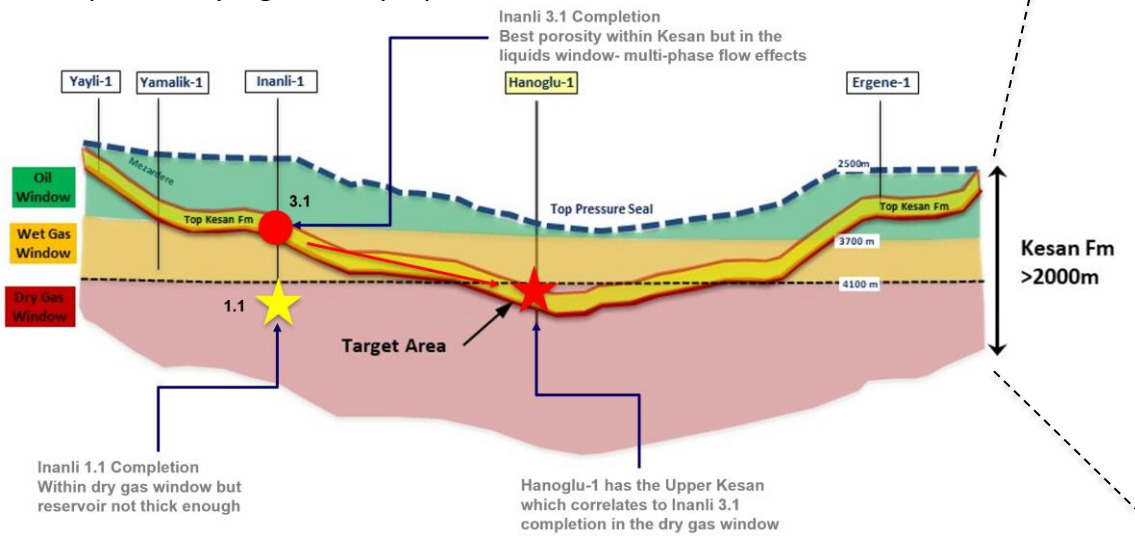



1. Valeura working interest, unrisked recoverable natural gas prospective resource per D&M report as of Dec. 31, 2018, adjusted for expected working interest after Equinor withdrawal in Q1 2020, subject to government registration.

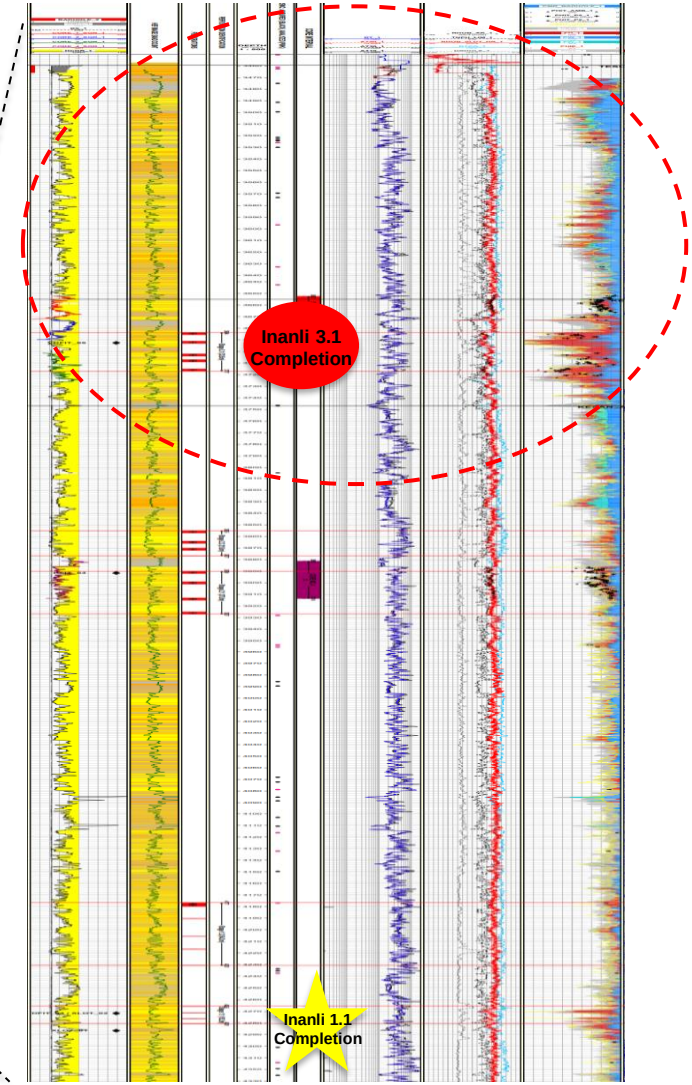
# Success requires overlapping reservoir and hydrocarbon sweetspots

***For the highest chance of a commercial flowrate, the next well must be located in the area where the "sweetspots" overlap***

- **Reservoir sweet spot**
  - Top 300 metres of the Teslimkoy/Kesan Fm.
  - All deep wells show this interval to have the best porosity and preservation
- **Hydrocarbon sweet spot**
  - Deep enough to be in the "dry gas" maturity window
  - Inanli-1.1 completion (4,250m) showed the best sustained flowrates, with almost no water prod'n and low CGRs (less multiphase fluid flow effects)
- **Fracture enhancement sweet spot**
  - Evidence of deep seated fracture systems accessing deep charge
  - TFL mapping and critical stress analysis shows areas with potentially high density open shear fractures



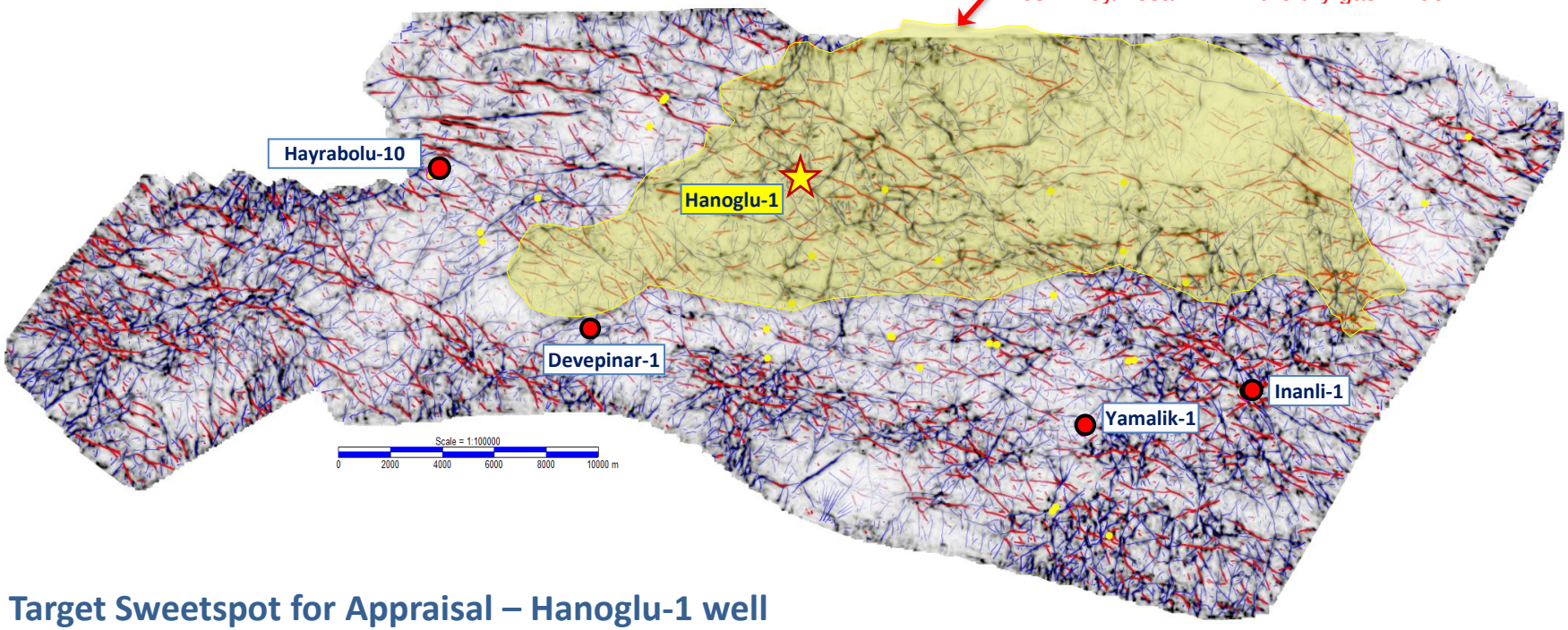

**Inanli-1 Teslimkoy/Upper Kesan**



# Hanoglu-1 Appraisal Well

**Thin Fault Likelihood ("TFL") from 3D seismic with critically stressed fractures in red at ~4,100 - 4,250m depth**

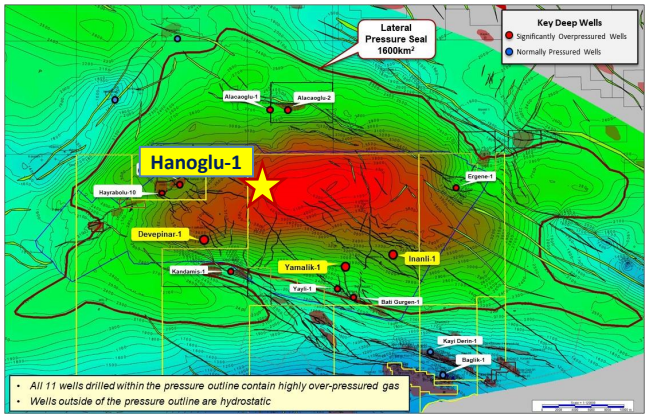
Target area of ~221km$^2$ where top of Teslimkoy/Kesan Fm in the dry gas window



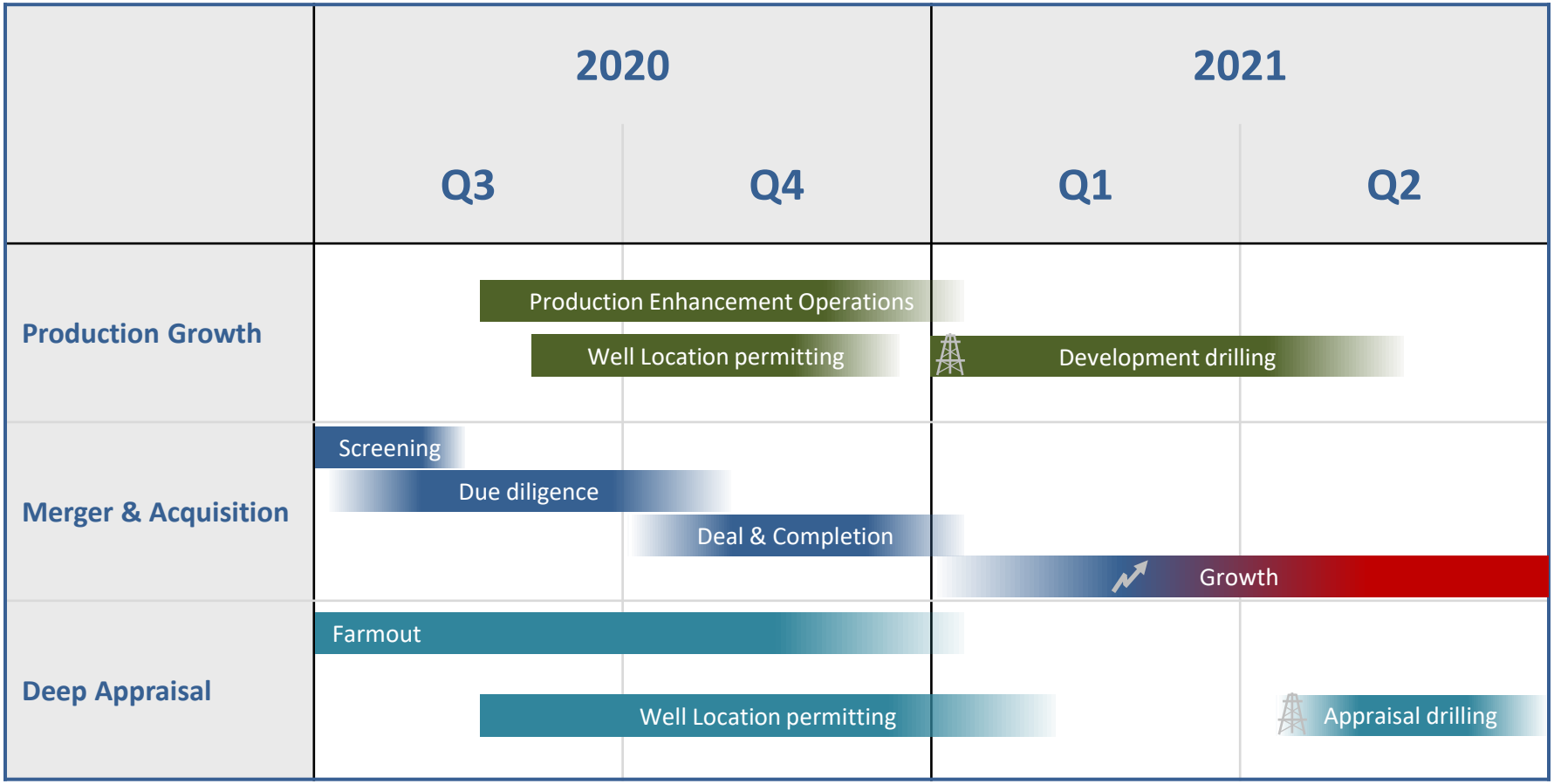

## Target Sweetspot for Appraisal – Hanoglu-1 well

- Top 300m of Telimkoy/Kesan reservoir in the dry gas window
- Target region of most intense natural fracturing based on 3D seismic data
- Polygon area within the top 300m of Teslimkoy/Kesan reservoir can yield 2.8 Tcf of recoverable gas

## Further upside in the play once initial area proven commercial

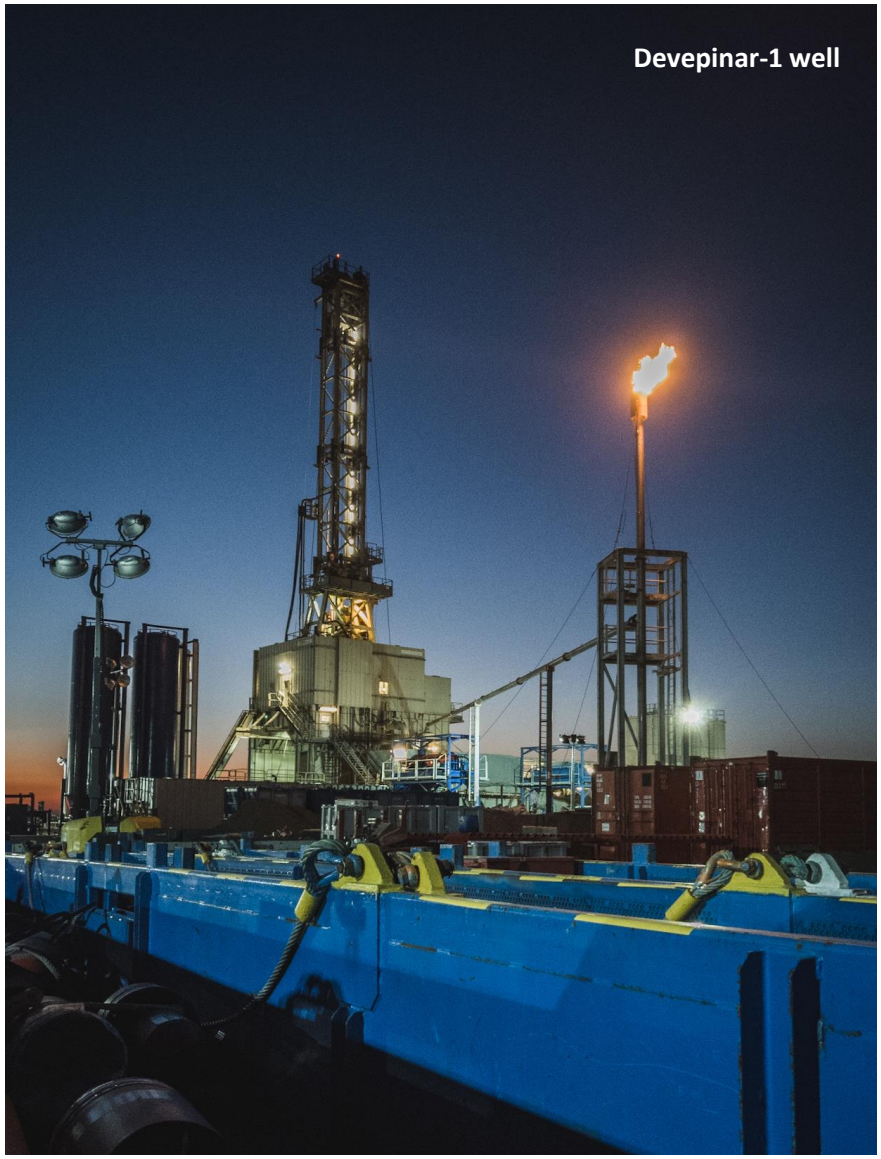


# Work programme focuses on all three strategic priorities



# Summary

- **Strong position**
  - Resilient after a challenging H1 2020, with production 672 boe/d at end Q2
  - Working capital surplus $33 million[1]
  - Resuming production enhancement work
  - Workforce remains safe and healthy
- **Undervalued**
  - Trading below cash
  - No recognition for value of reserves or upside
- **Clear three-pronged strategy to add value**
  - Maximising value from conventional gas business in near-term – converting reserves to production and cash
  - Uniquely positioned to layer in near-term/mid-term growth through M&A business
  - Remain committed to appraisal of the 20.0 Tcfe[2] deep play to unlock upside in the mid to longer-term




1. Q2 2020
2. Valeura working interest, unrisked recoverable natural gas prospective resource per D&M report as of Dec. 31, 2018, adjusted for working interest after Equinor withdrawal in Q1 2020.

valeura energy inc.

EXCEPTIONAL VALUE CREATION IN TURKEY

## Key Spokespersons

Valeura Energy Inc.
Sean Guest, President and CEO
Heather Campbell, CFO
Robin Martin, Investor Relations Manager

Phone: +1 403 237 7102
General Inquiries: Contact@valeuraenergy.com
Investor Inquiries: IR@valeuraenergy.com

## Media Inquiries

CAMARCO Financial PR
Owen Roberts
Monique Perks
Hugo Liddy
Billy Clegg

Phone: +44 (0) 20 3757 4980
Email: Valeura@camarco.co.uk

EXCEPTIONAL VALUE CREATION IN TURKEY

# Appendix

# Financial and Operating Results Summary

| | Three Months Ended June 30, 2020 | Three Months Ended March 31, 2020 | Three Months Ended June 30, 2019 |
|---|---|---|---|
| **Financial**<br>**(thousands of US$ except share and per share amounts)** | | | |
| **Petroleum and natural gas revenues** | 1,918 | 2,808 | 2,440 |
| **Adjusted funds flow[1]** | 339 | 52 | 774 |
| **Net loss from operations** | (1,899) | (192) | (1,603) |
| **Exploration and development capital** | 1,734 | 1,882 | 3,050 |
| **Net working capital surplus** | 33,231 | 34,054 | 39,825 |
| **Cash** | 30,469 | 32,554 | 38,536 |
| **Common shares outstanding** | | | |
| **Basic** | 86,584,989 | 86,584,989 | 86,584,989 |
| **Diluted** | 94,988,323 | 94,988,323 | 92,406,655 |
| **Share trading (CDN$ per share)** | | | |
| **High** | 0.44 | 0.65 | 3.16 |
| **Low** | 0.23 | 0.20 | 2.09 |
| **Close** | 0.32 | 0.23 | 2.32 |
| **Operations** | | | |
| **Production** | | | |
| **Crude oil (bbl/d)** | 18 | 17 | - |
| **Natural Gas (Mcf/d)** | 3,260 | 4,200 | 4,202 |
| **BOE/d (@ 6:1)** | 561 | 716 | 700 |
| **Average realised price** | | | |
| **Crude oil ($ per bbl)** | 41.65 | 65.22 | - |
| **Natural gas ($ per Mcf)** | 6.24 | 7.08 | 6.38 |
| **Average Operating Netback ($ per boe @ 6:1)[1, 2]** | 15.27 | 24.95 | 21.34 |

Notes:
See the Company's Management's Discussion and Analysis for the three and six months ended June 30, 2020 and 2019 filed on SEDAR for further discussion.

1. The above table includes non-IFRS measures, which may not be comparable to other companies. Adjusted funds flow is calculated as net income (loss) for the period adjusted for non-cash items in the statement of cash flows. Operating netback is calculated as petroleum and natural gas sales less royalties, production expenses and transportation.
2. Q2 2020 Average Operating Netback reflects inclusion of Devepinar-1 testing costs as opex. Excluding Devepinar-1 cost (for comparative purposes with prior quarters), netback would be US$18.33/boe