



**Condensed Interim Consolidated Financial Statements as at June 30, 2021 and for the three
and six months ended June 30, 2021 and 2020**

(Unaudited)

(In U.S. Dollars)

Condensed Interim Consolidated Statements of Financial Position

| (thousands of US Dollars, unaudited) | June 30, 2021 | December 31, 2020 |
|--|----------------------|-------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 42,626 | \$ 30,143 |
| Restricted cash (note 3) | 17 | 232 |
| Accounts receivable | 725 | 199 |
| Prepaid expenses and deposits | 596 | 330 |
| Assets held for sale (note 4) | - | 22,032 |
| | 43,964 | 52,936 |
| Deferred consideration (note 4) | 1,041 | - |
| Exploration and evaluation assets (note 5) | 1,571 | 1,643 |
| Property, plant and equipment (note 6) | 261 | 278 |
| | \$ 46,837 | \$ 54,857 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 514 | \$ 506 |
| Liabilities directly associated with the assets held for sale (note 4) | - | 10,240 |
| | 514 | 10,746 |
| Decommissioning obligations (note 7) | 1,306 | 2,161 |
| | 1,820 | 12,907 |
| Shareholders' Equity | | |
| Share capital (note 8) | 179,717 | 179,717 |
| Contributed surplus | 22,454 | 22,410 |
| Accumulated other comprehensive loss (note 4) | 10,329 | (55,288) |
| Deficit | (167,483) | (104,889) |
| | 45,017 | 41,950 |
| | \$ 46,837 | \$ 54,857 |

See accompanying notes to the condensed interim consolidated financial statements.



Condensed Interim Consolidated Statements of Loss and Comprehensive Income (Loss)
For the three and six months ended June 30, 2021 and 2020

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|------------------|-------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| (thousands of US Dollars, unaudited) | | | | |
| Revenue (note 10) | | | | |
| Petroleum and natural gas sales | \$ 1,040 | \$ 1,918 | \$ 3,126 | \$ 4,726 |
| Royalties | (144) | (258) | (423) | (636) |
| Other Income | 103 | 101 | 232 | 369 |
| | 999 | 1,761 | 2,935 | 4,459 |
| Expenses and other items | | | | |
| Production | 444 | 881 | 1,214 | 1,682 |
| General and administrative | 989 | 911 | 2,647 | 2,141 |
| Severance | 60 | - | 206 | 450 |
| Transaction costs | 25 | - | 69 | - |
| Accretion on decommissioning liabilities (notes 4 and 7) | 189 | 241 | 466 | 459 |
| Foreign exchange (gain) loss | (332) | 815 | 412 | (502) |
| Settlement income | - | (332) | - | (332) |
| Share-based compensation (note 8) | 95 | 254 | 19 | 411 |
| Change in estimate on decommissioning liabilities (note 7) | 45 | - | (664) | - |
| Depletion and depreciation (notes 6) | 7 | 944 | 14 | 2,222 |
| | 1,522 | 3,714 | 4,383 | 6,531 |
| Loss for the period before other items | (523) | (1,953) | (1,448) | (2,072) |
| Gain on sale (note 4) | 6,134 | - | 6,134 | - |
| Currency translation on subsidiaries disposed (note 4) | (67,005) | - | (67,005) | - |
| | (60,871) | - | (60,871) | - |
| Loss for the period before income taxes | (61,394) | (1,953) | (62,319) | (2,072) |
| Income taxes | | | | |
| Current tax expense | 19 | - | 41 | - |
| Deferred tax expense (recovery) | 120 | (54) | 234 | 19 |
| Net loss | (61,533) | (1,899) | (62,594) | (2,091) |
| Other comprehensive income (loss) | | | | |
| Currency translation on subsidiaries disposed (note 4) | 67,005 | - | 67,005 | - |
| Currency translation adjustments | (661) | (236) | (1,388) | (6,081) |
| Comprehensive income (loss) | \$ 4,811 | \$ (2,135) | \$ 3,023 | \$ (8,172) |
| Net loss per share (note 8) | | | | |
| Basic and diluted | \$ (0.71) | \$ (0.02) | \$ (0.72) | \$ (0.02) |
| Weighted average number of shares outstanding (thousands) | 86,585 | 86,585 | 86,585 | 86,585 |

See accompanying notes to the condensed interim consolidated financial statements.



Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2021 and 2020

| (thousands of US Dollars, unaudited) | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Cash was provided by (used in): | | | | |
| Operating activities: | | | | |
| Net loss for the period | \$ (61,533) | \$ (1,899) | \$ (62,594) | \$ (2,091) |
| Depletion and depreciation (note 6) | 7 | 944 | 14 | 2,222 |
| Share-based compensation (note 8) | 95 | 254 | 19 | 411 |
| Accretion on decommissioning liabilities (note 7) | 189 | 241 | 466 | 459 |
| Change in estimate on decommissioning liabilities (note 7) | 45 | - | (664) | - |
| Disposition (note 4) | 60,871 | - | 60,871 | - |
| Unrealized foreign exchange loss (gain) | (313) | 853 | 442 | (629) |
| Deferred tax expense (recovery) | 120 | (54) | 234 | 19 |
| Decommissioning costs incurred | - | (1) | - | (17) |
| Change in restricted cash | 217 | - | 215 | - |
| Change in non-cash working capital (note 11) | (375) | 854 | (128) | 1,629 |
| Cash (used in) provided by operating activities | (677) | 1,192 | (1,125) | 2,003 |
| Financing activities: | | | | |
| Principal payments on lease liability | - | (17) | (28) | (41) |
| Cash used in financing activities | - | (17) | (28) | (41) |
| Investing activities: | | | | |
| Property and equipment expenditures (note 6) | (2) | (684) | (2) | (2,145) |
| Exploration and evaluation expenditures (note 5) | (86) | (1,050) | (154) | (1,471) |
| Assets held for sale expenditures | (91) | - | (163) | - |
| Net cash received on disposition (note 4) | 14,358 | - | 14,358 | - |
| Change in restricted cash | - | (1) | - | (15) |
| Change in non-cash working capital (note 11) | (412) | (1,596) | (584) | (2,642) |
| Cash used in investing activities | 13,767 | (3,331) | 13,455 | (6,273) |
| Foreign exchange gain (loss) on cash held in foreign currencies | 152 | 71 | 181 | (1,331) |
| Net change in cash and cash equivalents | 13,242 | (2,085) | 12,483 | (5,642) |
| Cash and cash equivalents, beginning of period | 29,384 | 32,554 | 30,143 | 36,111 |
| Cash and cash equivalents, end of period | \$ 42,626 | \$ 30,469 | \$ 42,626 | \$ 30,469 |

See accompanying notes to the condensed interim consolidated financial statements.



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended June 30, 2021 and 2020

| (thousands of US Dollars and thousands of shares, unaudited) | Number of common shares | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comp. Loss | Total Shareholders' Equity |
|--|-------------------------|-------------------|---------------------|---------------------|------------------------------|----------------------------|
| Balance, January 1, 2021 | 86,585 | \$ 179,717 | \$ 22,410 | \$ (104,889) | \$ (55,288) | \$ 41,950 |
| Net loss for the period | - | - | - | (62,594) | - | (62,594) |
| Currency translation adjustments | - | - | - | - | 65,617 | 65,617 |
| Share-based Compensation | - | - | 44 | - | - | 44 |
| June 30, 2021 | 86,585 | \$ 179,717 | \$ 22,454 | \$ (167,483) | \$ 10,329 | \$ 45,017 |

| (thousands of US Dollars and thousands of shares, unaudited) | Number of common shares | Share Capital | Contributed Surplus | Deficit | Accumulated Other Comp. Loss | Total Shareholders' Equity |
|--|-------------------------|-------------------|---------------------|--------------------|------------------------------|----------------------------|
| Balance, January 1, 2020 | 86,585 | \$ 179,717 | \$ 21,229 | \$ (85,355) | \$ (49,273) | \$ 66,318 |
| Net loss for the period | - | - | - | (2,091) | - | (2,091) |
| Currency translation adjustments | - | - | - | - | (6,081) | (6,081) |
| Share-based Compensation | - | - | 497 | - | - | 497 |
| June 30, 2020 | 86,585 | \$ 179,717 | \$ 21,726 | \$ (87,466) | \$ (55,354) | \$ 58,643 |

See accompanying notes to the condensed interim consolidated financial statements.

1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries (refer to note 2c) are currently engaged in the exploration and development of petroleum and natural gas in Turkey. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands and Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE and the Main Market of the London Stock Exchange ("LSE"), under the trading symbol "VLU". Valeura's head office address is 1200, 202 – 6 Avenue SW, Calgary, AB, Canada.

2. Basis of Preparation
(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The attached unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2020. The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's audited consolidated financial statements for the year ended December 31, 2020, with the exception as noted below of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted in the interim statements.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. The use of estimates and judgements is also consistent with the December 31, 2020 financial statements.

The unaudited condensed interim consolidated financial statements were authorised for issue by the Board of Directors on August 4, 2021.

(b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2020 audited consolidated financial statements.

The COVID-19 pandemic is an evolving situation that may continue to have widespread implications for the Company's business environment, operations, and financial conditions. Management cannot reasonably estimate the length or severity of this pandemic and will continue to monitor the situation closely.

The Company's unaudited condensed interim consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in thousands of 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 |

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 loss 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.

(d) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The ability to make reliable estimates is further influenced by political and economic factors. Management has based its estimates with respect to the Company's operations in Turkey based on information available up to the date these condensed interim consolidated financial statements were approved by the Board of Directors. Significant changes could occur which could materially impact the assumptions and estimates made in these consolidated financial statements. Changes in assumptions are recognised in the financial statements prospectively.

3. Restricted Cash

The Company has restricted cash in the amount of \$0.02 million (2020 - \$0.23 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 held with National Bank of Canada ("NBC") as security, along with the Account Performance Security Guarantee ("APSG") facility described in Note 9, for decommissioning or abandonment obligations and ongoing work programmes on the Company's Turkish licences.

4. Disposition

On May 26, 2021, the Company closed the sale of its shallow conventional gas assets for cash consideration (including closing working capital and effective date adjustments) of \$16.85 million, and deferred consideration valued at \$1.0 million, with an economic effective date of July 1, 2020 ("the Transaction"). The Transaction was structured as a sale of shares of Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Corporate Resources B.V. ("CRBV"), both of which were wholly owned subsidiaries of Valeura. The deferred consideration is in the form of a cash royalty payable over 5 years, tied to local gas prices, with a minimum payment of \$1 million and a maximum of \$2.5 million. The retention amount is held in escrow for a period of 1 year from the closing date of the transaction.

The disposition resulted in a gain on disposal of \$6.1 million and a currency translation loss of \$67.0 million. Per note 2 (c), accumulated other comprehensive income or loss in disposed subsidiaries, due to currency translation losses, must be transferred to retained earnings through the statement of profit and loss.



Notes to the Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2021 and 2020

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

Recognized amounts of identifiable assets and liabilities disposed of were as follows:

| | | |
|--|-----------|---------------|
| Net assets disposed | | |
| Cash | \$ | 2,185 |
| Accounts receivable | | 2,418 |
| Inventory | | 117 |
| Prepaid expenses and deposits | | 273 |
| Right of use asset | | 340 |
| Exploration and evaluation assets | | 1,232 |
| Property and equipment | | 13,914 |
| Accounts payable and accrued liabilities | | (2,096) |
| Lease liability | | (279) |
| Deferred income taxes | | (589) |
| Asset retirement obligation | | (5,755) |
| Total net assets disposed | \$ | 11,760 |

| | | |
|----------------------------|-----------|---------------|
| Consideration | | |
| Cash proceeds | | 16,543 |
| Retention | | 310 |
| Royalty receivable | | 1,041 |
| Total consideration | \$ | 17,894 |

| | | |
|---|-----------|-----------------|
| Gain on disposition | \$ | 6,134 |
| Currency translation loss on subsidiaries disposed | | (67,005) |
| Total loss on disposition | \$ | (60,871) |

5. Exploration and Evaluation Assets

| | | |
|--|-----------|--------------|
| Cost | | Total |
| Balance, December 31, 2020 | \$ | 1,643 |
| Additions | | 154 |
| Capitalised share-based compensation | | 29 |
| Effects of movements in exchange rates | | (255) |
| Balance, June 30, 2021 | \$ | 1,571 |

6. Property, Plant and Equipment

| Cost | Total |
|--|------------------|
| Balance, December 31, 2020 | \$ 15,108 |
| Additions | 2 |
| Effects of movements in exchange rates | (2,235) |
| Balance, June 30, 2021 | \$ 12,875 |

| Accumulated depletion and depreciation | Total |
|--|------------------|
| Balance, December 31, 2020 | \$ 14,830 |
| Depreciation expense | 14 |
| Effects of movements in exchange rates | (2,230) |
| Balance, June 30, 2021 | \$ 12,614 |

| Net book value | Total |
|-------------------------------|---------------|
| Balance, December 31, 2020 | \$ 278 |
| Balance, June 30, 2021 | \$ 261 |

The depreciation expense recorded in 2021 relates to the Company's corporate assets.

(a) Contingencies

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

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

7. Decommissioning Obligations

| | June 30, 2021 |
|--|-----------------|
| Decommissioning obligations, beginning of period | \$ 2,161 |
| Change in estimates | (664) |
| Accretion of decommissioning obligations | 109 |
| Effects of movements in exchange rates | (300) |
| Balance, June 30, 2021 | \$ 1,306 |

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The change in estimate is mainly due to a revision in the cost estimates for abandonment and reclamation, an increase in the risk-free interest rate in Turkey (June 30, 2021 – 17.59%; December 31, 2020 – 12.5%) and an increase in the inflation rate in Turkey (June 30, 2021 – 16.59%; December 31, 2020 – 14.6%). The change in estimate has been recorded on the statement of loss and comprehensive loss as the Company has no asset related to the decommissioning liability.

8. Share Capital
(a) Issued

| Common shares | Number of Shares | Amount |
|---|-------------------|-------------------|
| Balance, June 30, 2021 and December 31, 2020 | 86,584,989 | \$ 179,717 |

(b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months and the year ended June 30, 2021 is 86,584,989 (June 30, 2020 and December 31, 2020 – 86,584,989). 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 programme that entitles officers, directors, employees and consultants to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a seven-year term and vest in thirds 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 outstanding, December 31, 2020 | 5,636,833 | \$ 0.57 |
| Granted | 2,312,500 | 0.52 |
| Expired | (360,000) | 0.64 |
| Forfeited | (895,000) | 1.07 |
| Balance outstanding, June 30, 2021 | 6,694,333 | 0.48 |
| Exercisable at June 30, 2021 | 2,705,509 | \$ 0.57 |

The following table summarises information about the stock options outstanding and exercisable at June 30, 2021:

| Exercise prices (CAD) | Outstanding at June 30, 2021 | Weighted average remaining life (years) | Weighted average exercise price (CAD) | Exercisable at June 30, 2021 | Weighted average exercise price (CAD) |
|-----------------------|------------------------------|---|---------------------------------------|------------------------------|---------------------------------------|
| \$0.25 - \$0.37 | 2,280,000 | 5.66 | \$ 0.25 | 773,342 | \$ 0.25 |
| \$0.38 - \$0.53 | 2,312,500 | 6.74 | 0.52 | - | - |
| \$0.54 - \$0.74 | 1,148,500 | 2.33 | 0.62 | 981,834 | 0.63 |
| \$0.75 - \$4.62 | 953,333 | 2.64 | 0.76 | 953,333 | 0.76 |
| | 6,694,333 | 5.03 | \$ 0.48 | 2,708,509 | \$ 0.57 |

Notes to the Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2021 and 2020
(tabular amounts in thousands of US Dollars, except share or per share amounts, unaudited)

The fair value, at the grant date during the period, of the stock options issued was estimated using the Black-Scholes model with the following weighted average inputs (weighted average fair value per option in CAD):

| Assumptions | June 30, 2021 | December 31, 2020 |
|--|---------------|-------------------|
| Risk free interest rate (%) | 0.8 | 0.8 |
| Expected life (years) | 4.4 | 4.5 |
| Expected volatility (%) | 98.0 | 99.6 |
| Forfeiture rate (%) | 11.0 | 6.8 |
| Weighted average fair value per option | \$ 0.37 | \$ 0.20 |

9. Credit Facilities

The Company's APSG facility with Export Development Canada ("EDC") is effective from June 16, 2021 to May 31, 2022 with a limit of \$0.25 million and can be renewed on an annual basis. The APSG facility, which was issued to NBC allows the Company to use the facility as collateral for certain letters of credit issued by NBC, with a limit of \$0.25 million and can be renewed on an annual basis. The Company has issued approximately \$0.18 million in letters of credit under the APSG facility at current exchange rates.

10. Revenue

Revenue recorded is for the period until the closing date of the Transaction on May 26, 2021. After the close of the Transaction, the Company's only revenue for the period is interest and other revenue.

For revenue earned until May 26, 2021, under the contracts, the Company was required to deliver a variable volume of natural gas to the contract counter party. Revenue was recognised when a unit of production was delivered to the contract counterparty. The amount of revenue recognised was based on the agreed transaction price, whereby any variability in revenue related specifically to the Company's efforts to transfer production or the customer's demand for natural gas, and therefore the resulting revenue was allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue was considered constrained.

The Company's contracts had a term of one year or less, whereby delivery took place throughout the contract period. Revenues were typically collected between the 12th and 25th day of the month following production.

The Company produced a small amount of crude oil that was sold on a spot basis as volumes warranted. Oil was delivered by truck to customers and revenue was recognised in the period in which the delivery occurred.

In addition to selling natural gas that the Company produced, the Company sold natural gas that it purchased from other producers in the area. This purchased natural gas was sold to the same customers, using the same contracts, through the same distribution network as natural gas the Company produced. The Company purchased natural gas from other producers under contracts that were typically one year or less in length at a discount of between 12.5% and 15% to the BOTAS price. These contracts required the Company to deliver the purchased natural gas to customers. The Company did not have the right, nor the ability, to store the purchased natural gas. Since the Company did not have the ability to influence the decision-making process for the purchased natural gas volumes or the discretion to set prices, did not experience any inventory risk, did not perform any processing of the product and did not remit royalties to the Turkish government for the product, it considered itself an agent in these transactions. Revenue for this purchased gas was included net of purchase cost in other income.

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

Notes to the Condensed Interim Consolidated Financial Statements
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(tabular amounts in thousands of US Dollars, except share or per share amounts, unaudited)

All of the Company's natural gas was sold in Turkey, in the Thrace Basin, which is the same area in which it was produced.

| | Three Months ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|-----------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Natural Gas | \$ 1,040 | \$ 1,851 | \$ 3,031 | \$ 4,557 |
| Crude Oil | - | 67 | 95 | 169 |
| Petroleum and natural gas sales | \$ 1,040 | 1,918 | \$ 3,126 | \$ 4,726 |

| | Three Months ended | | Six Months Ended | |
|--------------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Royalties – natural gas | \$ 130 | \$ 231 | \$ 379 | \$ 569 |
| Crude oil | 5 | 8 | 14 | 20 |
| Gross overriding royalty | 9 | 19 | 30 | 47 |
| Royalties | \$ 144 | 258 | \$ 423 | \$ 636 |

| | Three Months ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Third party natural gas sales net of costs | \$ 69 | \$ 24 | \$ 152 | \$ 125 |
| Interest and other revenue | 34 | 77 | 80 | 244 |
| Other income | \$ 103 | 101 | \$ 232 | \$ 369 |

11. Supplemental Cash Flow Information

| | Three Months ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-------------------|
| | June 30, 2021 | June 30, 2020 | June 30, 2021 | June 30, 2020 |
| Change in non-cash working capital: | | | | |
| Accounts receivable | \$ (638) | \$ (727) | \$ (526) | \$ 785 |
| Prepaid expenses and deposits | (33) | (33) | (266) | 102 |
| Inventory | - | 13 | - | 10 |
| Accounts payable and accrued liabilities | (431) | (54) | 8 | (1,665) |
| Movements in exchange rates | 315 | 59 | 72 | (245) |
| | \$ (787) | \$ (742) | \$ (712) | \$ (1,013) |

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

| | | | | |
|-----------|-----------------|-----------------|-----------------|-------------------|
| Operating | (375) | 854 | (128) | 1,629 |
| Investing | (412) | (1,596) | (584) | (2,642) |
| | \$ (787) | \$ (742) | \$ (712) | \$ (1,013) |

12. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

Notes to the Condensed Interim Consolidated Financial Statements
Three and six months ended June 30, 2021 and 2020
(tabular amounts in thousands of US Dollars, except share or per share amounts, unaudited)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

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

(a) Credit risk

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

| | June 30, 2021 | December 31, 2020 |
|--|---------------|----------------------|
| Joint venture receivable from partners | \$ 60 | \$ 89 |
| Revenue receivables from customers | - | 1,688 |
| Transaction Retention | 310 | - |
| Taxes receivable | 225 | 1,248 |
| Other | 130 | - |
| Accounts receivable | \$ 725 | \$ 3,025 |

Trade and other receivables:

The Company's receivables consist mostly of taxes receivable from the Turkish Government (VAT receivable) and a retention amount related to the Transaction which is a portion of the purchase price held in escrow for one year.

Receivables from partners are related to the Company's remaining licenses in Turkey.

(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.

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.

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 capital structure includes working capital and shareholders' equity. Currently, total capital resources available are working capital and the Company has a significant cash balance of \$42.6 million. 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. Valeura has not utilised bank loans or debt capital to finance capital expenditures to date.

Fair value of financial assets and liabilities:

The Company's fair value measurements are classified as one of the following levels of the fair value hierarchy:

Level 1 – inputs represent unadjusted quoted prices in active markets for identical assets and liabilities. An active market is characterized by a high volume of transactions that provides pricing information on an ongoing basis.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These valuations are based on inputs that can be observed or corroborated in the marketplace, such as market interest rates or forecasted commodity prices.

Level 3 – inputs for the asset or liability are not based on observable market data.

The Company aims to maximize the use of observable inputs when preparing calculations of fair value. Classification of each measurement into the fair value hierarchy is based on the lowest level of input that is significant to the fair value calculation.

The fair value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.