valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of November 12, 2019 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended September 30, 2019 and 2018. Additional information relating to Valeura is available under Valeura's profile on www.sedar.com, including Valeura's Annual Information Form for the year ended December 31, 2018 ("2018 AIF"). The reporting currency is the Canadian Dollar ("CAD") (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2018 audited consolidated financial statements, with the exception 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. The unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2018.

The discussion and analysis of oil and natural gas production is presented on a working-interest, before royalty basis. For the purpose of calculating unit of production information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe as a unit of measure may be misleading, particularly if used in isolation.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, reserves, environmental and decommissioning obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

Any financial outlook or future oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of Valeura, including, but not limited to, Valeura's expectations with respect to working capital at the end of 2019. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

Non-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "operating netback" (petroleum and natural gas sales less royalties, production expenses and transportation costs), "net capital" (cash flow used in investing activities, excluding changes in non-cash working capital and restricted cash), and "adjusted funds flow" (cash provided by operating activities before decommissioning costs incurred and changes in non-cash working capital) are non-GAAP measures and do not have standardised meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuers. The Company uses these supplemental non-GAAP measures to assist readers in evaluating operating performance. The Company considers adjusted funds flow a key measure as it demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to fund future growth through capital investments and considers operating netback an important measure as it demonstrates its profitability level relative to current commodity prices. For further information and reconciliations, refer to the individual sections.

valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019 and 2018

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

Highlights and Selected Financial Information

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Financial				
Petroleum and natural gas sales	**$ 2,860**	$ 2,401	**$ 10,005**	$ 8,819
Net loss	**(219)**	(2,647)	**(5,437)**	(6,486)
Per share, basic and diluted	**(0.00)**	(0.03)	**(0.06)**	(0.08)
Adjusted funds flow [1]	**1,363**	(430)	**2,851**	576
Per share, basic and diluted	**0.02**	(0.01)	**0.03**	0.01
Cash provided by (used in) operating activities	**$ 799**	$ (1,511)	**$ (942)**	$ (5,893)
Production volumes				
Natural gas (Mcf/d)	**3,078**	3,931	**3,917**	4,448
Crude oil (bbl/d)	**18**	-	**13**	8
Total (boe/d)	**531**	655	**666**	749
Sales prices				
Natural gas (per Mcf)	**$ 9.64**	$ 6.64	**$ 9.08**	$ 7.11
Crude oil (per bbl)	**79.07**	-	**85.95**	87.59
Total (per boe)	**58.54**	39.83	**55.07**	43.12
Exploration and development capital	**1,068**	2,739	**10,831**	4,741
Banarli farm-in	**-**	-	**(1,930)**	-
Working capital[2]			**52,787**	56,337
Cash			**$ 50,957**	$ 56,522
Weighted average shares outstanding Basic and diluted (thousands)[3]	**86,585**	86,137	**86,554**	83,299

Outstanding Share Data

	September 30, 2019
Common shares	86,584,989
Stock options	5,821,666
Fully Diluted	92,406,655

[1] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation to operating cash flow on page 11.

[2] Working capital is current assets less current liabilities.

[3] The weighted average number of common shares outstanding is not increased for outstanding stock options when the effect is anti-dilutive.

The Company

Valeura is a Canada-based public company currently engaged in the exploration, development and production of oil and natural gas in the Thrace Basin of northwest Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "VLE" and on the London Stock Exchange ("LSE"), under the trading symbol "VLU".

Valeura was established in 2010 to grow internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest, which included the Mediterranean Basin. The Company completed its first international transaction in Turkey during 2010 and since that time has executed a number of other transactions and won several new exploration licence awards in the country.

The asset and financing deals completed by the Company between Q4 2016 and Q1 2018 have transformed the Company by increasing the size of the asset base, giving Valeura operatorship of all key assets, and providing the financial capacity to explore and appraise the unconventional basin-centered gas accumulation ("BCGA") play. Additionally, the Company has secured Equinor Turkey B.V. ("Equinor") as a large, well-respected partner which provides further technical and financial capacity to explore and appraise the deep, unconventional potential of the lands.

As at September 30, 2019, the Company held an interest in 20 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.46 million gross acres (0.37 million net acres of shallow rights and 0.26 million net acres of deep rights) as follows:

		Leases & Licenses	Gross Area (Acres)	Valeura Shallow Rights		Valeura Deep Rights	
				WI	Net Acres	WI	Net Acres
South Thrace Production Leases	Operated	11	170,735	81.5%	139,149	81.5%	139,149
West Thrace Production Leases	Operated	3	13,578	81.5%	11,066	31.5%	4,277
Erdine Production Leases	Non-Operated	3	49,883	35.0%	17,459	35.0%	17,459
Banarli Exploration Licenses[1]	Operated	2	133,840	100.0%	133,840	50.0%	66,920
West Thrace Exploration Licenses	Operated	1	88,434	81.50%	72,074	31.5%	27,857
Total			**456,470**		**373,588**		**255,662**

(1) To earn their 50% deep rights under the Banarli Farm-In Agreement, Equinor must still fund the fracking and testing of the Inanli-1 well. If this work program is not completed, Valeura reverts to 100% ownership.

The Company's primary producing assets are located in the South Thrace Lands and the West Thrace Lands, in each case, being the lands comprising the leases and licences described above (together the "TBNG JV Lands").

In the South Thrace Lands, the Company holds 11 production leases encompassing 170,735 gross acres. Valeura is the operator of the South Thrace Lands and holds an 81.5% working interest in the shallow rights and deep rights. The South Thrace Lands are jointly held by Valeura's wholly-owned subsidiaries, Thrace Basin Natural Gas Inc. ("**TBNG**") (41.5%) and Corporate Resources BV ("**CRBV**") (40%), and Pinnacle Turkey, Inc. ("**PTI**") holds the other 18.5% working interest. There is no work programme obligation to the Government of Turkey during the current term of the leases.

In the West Thrace Lands, the Company holds three production leases (the "West Thrace Production Leases") and one exploration licence (the "West Thrace Exploration Licence") encompassing 102,012 gross acres. The Company's 31.5% working interest in deep rights is held by TBNG, and the Company's 81.5% working interest in shallow rights is jointly held by TBNG (as to 41.5%) and CRBV (as to 40%). Equinor (as to 50%) and PTI (as to 18.5%) hold the remaining working interests in the deep rights, and PTI holds the remaining 18.5% working interest in the shallow rights. Valeura is the operator of the West Thrace Lands which are subject to joint operating agreements. The West Thrace Exploration Licence has a two well commitment to fulfill the work programme obligation which must be completed by June 26, 2020.

The Company holds two exploration licences in the Banarli (the "Banarli Exploration Licences") Lands, being the lands comprising the licences described above, encompassing 133,840 gross acres. The Company holds a 100% working interest in the shallow rights and 50% working interest in the deep rights through CRBV. Equinor holds the other 50% working interest in the deep rights. Rights are subject to joint operating agreements and the Banarli farm-in and Valeura is currently the operator. The seismic and drilling work programme obligation to the Government of Turkey has been completed, except for geological and geophysical studies, which are ongoing and are expected to satisfy the obligation.

Equinor has a 50% working interest in the deep rights under the Banarli farm-in which requires Equinor to fully fund: (1) the drilling and testing of the Yamalik-1 well; (2) the acquisition and processing of the Karaca 3D seismic programme; and (3) the drilling and testing of the Inanli-1 well. It is expected that Equinor will fulfill these obligations in mid 2020 once the testing of Inanli-1 is complete. If this work is not fully completed, 100% ownership of deep rights reverts to Valeura.

The boundary between the deep and shallow rights is determined by either a pressure gradient of 0.6 psi/ft (1.39 SG) or 2,500 metres depth, whichever is shallower. Valeura remains operator of the deep exploration programme on both the Banarli Exploration Licences and West Thrace Lands during Equinor's earning phase in Banarli. Equinor will have the option to request operatorship of the deep rights on both the Banarli and West Thrace Lands once they have fully earned. Additionally, under the Banarli farm-in agreement Equinor has no pre-emptive right related to Valeura's interests and there are some controls for Valeura's benefit related to managing the pace of appraisal drilling allowed prior to approval of any pilot project for development.

The Company's wholly-owned subsidiary, Valeura Energy Netherlands BV ("**VENBV**") holds a 35% working interest in three production leases in Edirne encompassing 49,883 gross acres. Otto Energy Limited (a subsidiary of TransAtlantic Petroleum) operates and holds the remaining 65% working interest. These leases currently do not have active operations or production and were fully impaired in 2016. The Company signed an agreement during the quarter to transfer its interest in these licenses to the operator for nominal consideration. This transfer is dependent on General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA") approval, for which the Company has submitted an application.

The Company is focussed on growing its established business in Turkey, particularly its natural gas operations in the Thrace Basin which yields very high natural gas prices relative to North America. As a result of the success of the Yamalik-1 gas-condensate discovery, the primary focus of Valeura's business has transitioned to the delineation and commercial demonstration of the multi-trillion cubic feet ("TCF") BCGA play. However, the Company still continues to optimise its established conventional shallow gas assets in the Thrace Basin.

Operations

Production Operations

The Company generates cash flow from the sale of petroleum and natural gas production from its assets in the Thrace Basin of Turkey. The gas, which is composed primarily of methane, is gathered, dehydrated and compressed in Company-operated facilities and distributed on a Company-operated sales line network directly to 55 light industry customers. Valeura is the operator of all of its production operations.

The Company is continuing with its plan of selective low-cost workovers throughout the conventional play, to slow the natural decline from the existing fields. In addition, the Company has undertaken a study to assess the potential for further exploitation of its conventional play. This work will form the basis of a work programme and budget for 2020 and beyond.

BCGA Play

Valeura identified the potential for an unconventional BCGA play very early in its entry into the Thrace Basin. Based on the BCGA thesis, the Company acquired the Banarli Exploration Licences in 2013 and in 2015 and in this period drilled the Kazanci-5, Hayrabolu-10 and Yayli-1 wells into deeper, over-pressured formations which provided more

evidence supporting the BCGA play concept. The Company then completed the Banarli Farm-in and West Thrace sale transactions with Equinor in 2016 and 2017 and since has completed approximately 500 square kilometres of 3D seismic (Karaca 3D) and drilled the Yamalik-1 and Inanli-1 exploration wells on the Banarli Exploration Licences and the Devepinar-1 well on the West Thrace licences.

During the third quarter of 2019, the Company and its partner continued the operations to high-pressure stimulate the Inanli-1 well that began in Q2 2019. Those operations continued into the fourth quarter. Valeura and its partner are evaluating the results of the tests and conducting reservoir and economic modeling. In addition, planning for completion and testing of the deepest intervals of interest at Devepinar-1 occurred, preparing for operations in the fourth quarter.

Business Environment

During 2019 the economic situation in Turkey has been relatively stable. The rate of inflation and interest rates have both decreased throughout the year. The Turkish Lira (“TL”) declined in the first quarter but has been relatively stable since then.

The recent events in northern Syria has not directly impacted Valeura’s operations. For reference, Valeura’s operations are located in the northwest (Thrace) region of Turkey, west of Istanbul and more than 1,000 km from the Turkey-Syria border. Field operations and the appraisal testing programme are progressing safely and as planned. The Company was unaffected by the short-lived US Sanctions which were applied to two government ministries and three individuals.

The Company will continue to monitor conditions, including the safety of personnel and operations, the security situation generally, the impact on the TL and the Company’s banking facilities, the impact on our joint venture partners and any changes in offtakes by the Company’s natural gas customers.

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 complicated when the political, economic and security situation is uncertain. Management has based its estimates with respect to the Company’s operations in Turkey based on information available up to the date this MD&A was approved by the Board of Directors. Significant changes could occur which could materially impact the assumptions and estimates made in this MD&A.

Outlook

The Company’s near-term work programme is focused on reservoir stimulation and production testing of the new wells drilled in the BCGA to understand the flow characteristics and the fluid compositions of the rock across the wide depth range and lateral expanse of the BCGA. These data are key to calibrating the petrophysical and core data acquired during drilling operations, and in determining the next steps in the appraisal programme to progress the project towards commerciality. The Company believes a rigorous, scientific approach is critical in this early stage of appraisal to increase the chance of a commercial development of the BCGA resource.

The completion programme has been designed to capture as much key data as possible from each individual zone, and not to maximise initial production rates. The primary objectives are to demonstrate that it is possible to achieve sustained gas flow from an individual zone, and to understand the composition of gas, condensate, and potentially any water from each zone. The testing programme will evaluate different zones both vertically down through the BCGA interval and laterally across the basin, to identify those zones which exhibit the potential for commercial development. Initial well testing operations on the Inanli-1 well were completed in early Q4 and testing operations have begun on the Devepinar-1 well.

Valeura is conducting scenario planning for its next appraisal steps following the ongoing stimulation and testing campaign, which will form the basis of a 2020/2021 work programme. Assuming the Company identifies one or more zones that exhibit the potential for sustained gas flow, the Company's priority is expected to shift to maximising access to these high-graded stratigraphic intervals via horizontal wells and multi-stage reservoir stimulation, with the potential for much higher flow rates.

Valeura remains very well positioned to finance its ongoing BCGA appraisal and all corporate activities into 2020, and the Company anticipates exiting 2019 with in excess of $40 million of positive working capital. The Company's financing needs will be re-evaluated based on the results of the ongoing stimulation and testing programme and the resulting work programme selected for 2020 and beyond.

In addition, the Company is producing natural gas from its shallow conventional play, and is evaluating opportunities to enhance value, including activities such as additional well workovers and new drilling. The Company's production generates strong operating netbacks, most recently in excess of $33/boe, which both generates operating income for the business and underscores the long-term potential value of the Company's unconventional gas resource.

In all its activities, the Company adheres to a very high standard of environmental, social, and governance stewardship, and believes protecting the health and safety of all those affected by its business is paramount to its sustainability.

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Results of Operations

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Petroleum and natural gas sales	**$ 2,860**	$ 2,401	**$ 10,005**	$ 8,819
Royalties	**(389)**	(323)	**(1,345)**	(1,179)
Production costs	**(857)**	(654)	**(2,902)**	(2,748)
Operating netback[4]	**1,614**	1,424	**5,758**	4,892
Other income	**542**	571	**1,827**	1,432
General and administrative expenses	**(495)**	(558)	**(2,529)**	(3,299)
Transaction costs	**(63)**	-	**(1,307)**	(287)
Realised foreign exchange loss	**(39)**	(1,036)	**(682)**	(1,133)
Current tax recovery (expense)	**(196)**	(831)	**(216)**	(1,029)
Adjusted funds flow[5]	**1,363**	(430)	**2,851**	576
Non-cash expenses				
Share-based compensation	**(523)**	(421)	**(1,915)**	(971)
Accretion on decommissioning liabilities	**(401)**	(545)	**(1,439)**	(1,470)
Unrealised foreign exchange gain (loss)	**598**	(278)	**51**	(131)
Depletion and depreciation	**(1,260)**	(1,507)	**(4,762)**	(5,373)
Deferred tax recovery (expense)	**4**	534	**(223)**	883
Net loss	**$ (219)**	$ (2,647)	**$ (5,437)**	$ (6,486)

Sales Volumes

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Natural gas (Mcf/d)	**3,078**	3,931	**3,917**	4,448
Crude oil (bbl/d)	**18**	-	**13**	8
Total (boe/d)	**531**	655	**666**	749

Sales volumes for the three and nine months ended September 30, 2019 were 531 boe/d and 666 boe/d, respectively, compared to 655 boe/d and 749 boe/d for the same periods in 2018. Sales volumes decreased as a result of customer shut downs associated with National holidays and natural declines partially offset by successful workovers. Inanli-1 was tested during Q3-2019. Sales were credited against capital expenditures and are not included above.

[4] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation on page 9.

[5] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation on page 11.

Pricing Information

	Three months ended		Nine months ended	
Average reference prices	**September 30, 2019**	September 30, 2018	**September 30, 2019**	September 30, 2018
Natural gas – BOTAS (per Mcf)[6]	**TL 41.81**	TL 28.35	**TL 38.99**	TL 25.20
Natural gas – BOTAS (per Mcf)	**$ 9.75**	$ 6.65	**$ 9.24**	$ 7.26
Average exchange rate (TL/CAD)	**4.29**	4.26	**4.22**	3.47

	Three months ended		Nine months ended	
Average realised prices	**September 30, 2019**	September 30, 2018	**September 30, 2019**	September 30, 2018
Natural gas (per Mcf)	**$ 9.64**	$ 6.64	**$ 9.08**	$ 7.11
Crude oil (per bbl)	**$ 79.07**	$ -	**$ 85.95**	$ 87.59

Natural gas sales from the TBNG JV Lands 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 Reference Price, described below. Natural gas from Banarli is being sold to the TBNG JV, net of a transportation and marketing fee. Valeura receives the majority of the benefits from this fee arrangement and the associated proceeds by virtue of its current 81.5% working interest in the TBNG JV facilities.

In Turkey the price of natural gas is set by BOTAS, the state-owned enterprise that owns most of the gas pipelines and controls most of the import contracts for natural gas into Turkey. The BOTAS Reference Price is denominated in TL. Historically, the BOTAS Reference Price has behaved in a similar manner to the regional price for natural gas when translated to US dollars ("USD"). In 2018, BOTAS introduced regular updates to the natural gas price and since mid-2018 the price has been adjusted, if required, on the first day of the month. Since the beginning of 2018, the price was adjusted upwards five times. Analysis suggests that these price adjustments are taking into account variations in the regional price of natural gas, and changes in the TL exchange rate. Effective August 1, 2019, BOTAS increased the reference price by 15%. While indications are that the BOTAS pricing continues to move toward a more market-driven price for natural gas, there is no guarantee that the government will continue this policy in the future.

The Company's Q3 2019 average realised natural gas price in Turkey increased 45% to $9.64 per Mcf from $6.64 per Mcf in Q3 2018 due to the price increases in 2018 and 2019.

In Q3 2019, the average realised natural gas price in Turkey of $9.64 per Mcf represents a 1.0% discount to the BOTAS benchmark price.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Natural gas	**$ 2,728**	$ 2,401	**$ 9,710**	$ 8,633
Crude oil	**132**	-	**295**	186
Total revenues	**$ 2,860**	$ 2,401	**$ 10,005**	$ 8,819

Petroleum and natural gas sales revenues for the three months ended September 30, 2019 was 95% natural gas and 5% crude oil. Variations in the amount of condensate produced in a quarter is primarily due to how many liftings

[6] BOTAS owns and operates the national crude oil and natural gas pipeline grids in Turkey and purchases the majority of Turkey's natural gas imports. BOTAS regularly posts prices and its Level-2 Wholesale Tariff benchmark is shown herein as a reference price. See the 2018 AIF for further discussion.

occur in the quarter. Gas revenues for the three and nine months ended September 30, 2019 increased in comparison to the same periods in 2018 due primarily to higher prices offset partially by lower volumes.

Royalties

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Royalties	**$ 389**	$ 323	**$ 1,345**	$ 1,179
Percentage of revenue	**13.6%**	13.5%	**13.4%**	13.4%

Royalties for the three and nine months ended September 30, 2019 increased in comparison to the same periods in 2018 as a result of higher petroleum and natural gas sales revenues. Revenues are subject to a 12.5% government royalty and an overriding royalty only on the TBNG JV Lands of 1%.

Production Costs

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Production costs	**$ 857**	$ 654	**$ 2,902**	$ 2,748
$ per boe	**17.55**	10.84	**15.98**	13.44

Production costs for the three months ended September 30, 2019 are higher than the same period in 2018 due to increased costs for operating workovers, increased personnel costs in the quarter and financing fees for the Export Development Canada ("EDC") facility. The higher unit production costs in 2019 are reflective of the level of fixed costs included in total operating costs and lower gross production from the TBNG JV Lands and Banarli Exploration Licences.

Operating Netbacks (per boe)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Petroleum and natural gas sales	**$ 58.54**	$ 39.83	**$ 55.07**	$ 43.12
Royalties	**(7.95)**	(5.36)	**(7.40)**	(5.77)
Production costs	**(17.55)**	(10.84)	**(15.98)**	(13.44)
Operating netback[7]	**$ 33.04**	$ 23.63	**$ 31.69**	$ 23.91

Operating netbacks in the three and nine months ended September 30,2019 increased in comparison to the same periods in 2018 due primarily to higher realised prices partially offset by higher per unit production costs.

Operating netback is a non-GAAP measure and is equal to petroleum and natural gas sales less royalties, production expenses and transportation costs. The Company considers operating netback an important measure as it demonstrates its profitability level relative to current commodity prices.

[7] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
General and administrative expenses	**$ 1,798**	$ 1,789	**$ 6,259**	$ 6,092
Recoveries and capitalised general Administrative expenses	**(1,303)**	(1,231)	**(3,730)**	(2,793)
Total general and administrative expenses	**$ 495**	$ 558	**$ 2,529**	$ 3,299

Net general and administrative expenses in the three and nine months ended September 30, 2019 decreased in comparison to the same periods in 2018 as a result of increased overhead recoveries. Overhead recoveries are realised primarily from operating the BCGA deep drilling and testing programme.

Transaction Costs

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

Foreign Exchange

Foreign exchange (realised and unrealised) for three and nine months ended September 30, 2019 was a gain of $0.6 million and a loss of $0.6 million, respectively, compared to a loss of $1.3 million and $1.3 million for the same period in 2018.

The functional currency for the Company's Turkish operations is the TL. Foreign exchange gains and losses are the result of translation of accounts denominated in currencies other than the functional currencies of Valeura and its subsidiaries, and settling transactions denominated in currencies other than the functional currency of the entity.

The Company's seismic and drilling operations and related contracts in Turkey are predominantly based in USD. Material increases in the value of the USD against the TL or CAD will negatively impact the Company's costs of drilling and completions activities. Future CAD/USD and CAD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators, as changes in realised prices, royalties, operating costs and abandonment liabilities effect the value of future cash flows from reserves.

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, would 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.

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

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

Changes to the TL/USD exchange rate, which are impacted by the TL/CAD exchange rate upon conversion to the Company's CAD presentation currency, would have had the following impact on capital expenditures for the three and nine months ended September 30, 2019:

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

Other Income

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

Other income is comprised of third party processing and marketing income and interest income related to cash on hand. The majority of the increase for the nine months ended September 30, 2019 can be attributed to interest income as a result of higher average cash levels in 2019 in comparison to 2018. Third party gas sales are comparable to the same period in 2018.

Current Tax

Current tax for the three and nine months ended September 30, 2019 was an expense of $0.2 million and $0.2 million, respectively, compared to an expense of $0.8 million and $1.0 million for the same periods in 2018. The current tax expense represents taxes due related to normal operating activities in Turkey.

Adjusted Funds Flow

Adjusted funds flow for the three and nine months ended September 30, 2019 was $1.4 million and $2.9 million, respectively, compared to an outflow of $0.4 million and an inflow of $0.6 million for the same periods in 2018. The increase in adjusted funds flow in 2019 was due to higher revenue and decreased general administrative expenses partially offset by increased transaction costs and foreign exchange losses.

The following table reconciles Valeura's cash provided by operating activities to adjusted funds flow:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Cash provided by (used in) operating activities	**$ 799**	$ (1,511)	**$ (942)**	$ (5,893)
Decommissioning costs incurred	**393**	355	**553**	397
Change in non-cash working capital	**171**	726	**3,240**	6,072
Adjusted funds flow [8]	**$ 1,363**	$ (430)	**$ 2,851**	$ 576

[8] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

Adjusted funds flow is a non-GAAP measure and is based on cash provided by (used in) operating activities before decommissioning costs incurred and changes in non-cash working capital. The Company considers adjusted funds flow a key measure as it demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to fund future growth through capital investments. Certain non-cash charges and decommissioning costs have been excluded from the calculation of adjusted funds flow, as management believes the timing of collection, payment and incurrence is variable and by excluding them from the calculation management is able to provide a more meaningful measure of the Company's cash flow from continuing operations.

Non-cash Expenses:

Share-based Compensation

Share-based compensation is a non-cash expense associated with the stock options issued to directors, officers, employees and certain other service providers of the Company.

Share-based compensation expense for the three and nine months ended September 30, 2019 was $0.5 million and $1.9 million, respectively, compared to $0.4 million and $1.0 million for the same periods in 2018. During the nine months ended September 30, 2019, the Company granted 1,725,000 options with a weighted average exercise price of $3.03.

Accretion on Decommissioning Liabilities

Accretion on decommissioning obligations for the three and nine months ended September 30, 2019 was $0.4 million and $1.4 million, respectively, compared to $0.5 million and $1.5 million for the same periods in 2018.

Depletion and Depreciation

Depletion and depreciation for the three and nine months ended September 30, 2019 was $1.3 million and $4.8 million, respectively, compared to $1.5 million and $5.4 million for the same periods in 2018. Depletion is calculated on a unit-of-production basis utilising proved plus probable reserves.

On a per unit basis, depletion and depreciation for the three and nine months ended September 30, 2019 was $25.79/boe and $26.19/boe, respectively, compared to $25.01/boe and $26.28/boe for the same periods in 2018.

Deferred Tax

Deferred tax for the three and nine months ended September 30, 2019 was a recovery of $0.01 million and an expense of $0.2 million, respectively, compared to a recovery of $0.5 million and $0.9 million for the same periods in 2018. Deferred tax relates to changes in the temporary difference between the net book value and the tax basis of the assets and liabilities in the Company's Turkish operations.

Currency Translation Adjustments

Translation of all assets and liabilities from their 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 accumulated other comprehensive income or loss ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realised foreign exchange gain or loss which is recorded in earnings.

The currency translation adjustment for the three and nine months ended September 30, 2019 was a gain of $1.1 million and a loss of $3.7 million, respectively, compared to a loss of $11.0 million and $17.0 million for the same periods in 2018 reflecting the fluctuation in the value of the TL compared to the CAD in the respective periods.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Geological and geophysical	**$ 184**	$ 52	**$ 465**	$ 146
Drilling & completions	**502**	2,664	**7,758**	3,788
Workovers & recompletions	**120**	(92)	**2,063**	455
Equipping, facilities & other	**262**	115	**545**	352
Total exploration and development capital program	**1,068**	2,739	**10,831**	4,741
Banarli farm-in	**-**	-	**(1,930)**	-
Total net capital [9]	**$ 1,068**	$ 2,739	**$ 8,901**	$ 4,741

Net capital is a non-GAAP measure and is equal to cash flow used in investing activities, excluding changes in non-cash working capital and restricted cash. The Company considers net capital expenditures to be a useful measure of cash flow used for capital reinvestment.

The Company's total exploration and development capital programme spending for Q3 2019 was $1.1 million, including $0.5 million for drilling and completions operations, $0.3 million for equipping, facilities and other and $0.1 million for workovers and recompletions. The drilling and completion costs for Q3 2019 were primarily related to Valeura's share of the drilling costs of the Devepinar-1 well, for which an initial completion and testing program is planned in Q4 2019. While Equinor funded the drilling of Inanli-1 under the Banarli farm-in agreement, Valeura was required to pay its working interest share of 31.5% towards the drilling of Devepinar-1 which spudded on February 19, 2019 and concluded drilling operations at the end of April 2019.

2019 Capital Programme

Valeura's 2019 capital programme is almost entirely focused on the drilling and testing of wells to delineate and demonstrate commerciality of the unconventional BCGA play. Funds are also allocated for the tie-in of these wells to allow for production and sales of any discovered gas during the testing operations.

The plan for capital expenditures for the full year 2019 BCGA programme is as follows:

Operation	**Net VLE Cost (in dollars)**	**Anticipated Timing**
Test and complete Inanli-1 (Banarli)	$0	Q1 2019 – Q3 2019
Drill and Test Devepinar-1 (West Thrace)	$9,500,000	2019
Workovers and Production Testing of BCGA Wells	$2,000,000	2019
Facilities and Tie-in for 2 wells	$500,000	2019
Long lead items	$500,000	2019
G&G and studies	$1,500,000	2019
Total:	**$14,000,000**	

[9] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

The decrease of $3.5 million from the $17.5 million in full year projected spending on the BCGA programme reported in the Q2 2019 MD&A is due to decreases in costs for Devepinar-1 completion and testing ($3.25 million) and workovers ($0.5 million), partially offset by increased net spending on long lead items and tie-in costs of $0.75 million total. In support of its conventional, shallow production, Valeura also plans to spend approximately $2.0 million for studies on development of its existing reserves, workovers, studies and other facilities maintenance projects on the TBNG JV lands. The total capital budget for the full year 2019 is approximately $16.0 million.

Liquidity, Financing and Capital Resources

	Three months ended		**Nine months ended**	
	September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
Opening cash position	**$ 50,581**	$ 56,899	**$ 62,380**	$ 11,108
Inflow of funds				
Share issuance – net of share issuance costs	**-**	-	**-**	55,408
Banarli farm-in	**-**	-	**1,930**	-
Restricted cash	**-**	440	**-**	840
Proceeds from stock option exercises	**-**	-	**267**	1,816
Foreign exchange on cash	**354**	915	**-**	1,438
Adjusted funds flow[10]	**1,363**	-	**2,851**	576
Change in non-cash working capital[11]	**137**	2,746	**-**	-
	1,854	4,101	**5,048**	60,078
Outflow of funds				
Capital expenditures[12]	**(1,068)**	(2,739)	**(10,831)**	(4,741)
Decommissioning costs incurred	**(393)**	(355)	**(553)**	(397)
Payments on leases	**(9)**	-	**(71)**	-
Restricted cash	**(8)**	-	**(68)**	-
Change in non-cash working capital	**-**	-	**(4,091)**	(9,526)
Adjusted funds flow	**-**	(430)	**-**	-
Foreign exchange on cash	**-**	-	**(857)**	-
	(1,478)	(3,524)	**(16,471)**	(14,664)
Closing cash position	**$ 50,957**	$ 56,522	**$ 50,957**	$ 56,522

Capital Funding and Resources

As at September 30, 2019, Valeura's working capital[13] balance was $52.8 million including cash of $51.0 million. Valeura's 2019 opening cash position was $62.4 million. In the first nine months of 2019, the Company utilised this opening cash balance plus funds flow from operations to fund an exploration and development capital programme

[10] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

[11] Includes the following captions from the consolidated statements of cash flows: changes in non-cash working capital from operating activities, changes in non-cash working capital from investing activities and foreign exchange gain (loss) on cash held in foreign currencies.

[12] Includes the following captions from the condensed interim consolidated statements of cash flows: exploration and evaluation expenditures and property and equipment expenditures.

[13] Working capital is current assets less current liabilities.

of $10.8 million. In addition, the Company has recorded a payment of $1.9 million from Equinor related to the under-funding of the 3D seismic commitment under the Banarli farm-in agreement.

Financial Capacity

As at September 30, 2019 the Company's working capital[13] was $52.8 million. The working capital position is more than sufficient to fund the planned capital programme for 2019 of $16.0 million.

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 expenditure includes 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 the lands in the Thrace Basin. This could change in mid 2020 if Equinor completes its earning obligations under the Banarli farm-in and requests operatorship of the deep operations. There is a risk that Equinor could propose a more significant work programme including a pilot devleopment project, for which the Company would have to contribute its participating interest (50% for Banarli, 31.5% for West Thrace). However, under the farm-in agreement, the pace of the programme and any work programme is subject to the approval process and protections/rights in the joint operating agreement governing the relationship between Valeura and its partners which provides Valeura with an ability to limit such programmes. The Company has working capital of approximately $52.8 million at September 30, 2019 in order to meet commitments of the current capital programme. If a more significant programme is proposed, the Company will be required to assess alternatives including the availability of equity and debt capital to fund the programme.

The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through operations, bank financing, equity offerings or other sources and there are no assurances that such funding will be available when needed. Failure to obtain such funding on a timely basis could cause the Company to reduce capital spending and could lead to the loss of exploration licences due to failure to meet drilling deadlines.

Valeura has not utilised bank loans or debt capital to finance capital expenditures to date. In the future, if the Company establishes and borrows on a bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualised funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

Restricted Cash and Licence Deposits

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

Effective April 10, 2019, the Company renewed its Account Performance Security Guarantee ("APSG") facility with 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.

	Three months ended			
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Total daily production (boe/d)	531	700	768	623
Average wellhead price ($/boe)	$ 58.54	$ 51.22	$ 56.17	$ 55.00
Petroleum and natural gas sales	2,860	3,265	3,880	3,150
Cash provided by (used in) operating activities	799	(1,340)	(401)	5,309
Adjusted funds flow (used) [14]	1,363	1,034	454	3,079
Per share, basic and diluted	0.02	0.01	0.01	0.04
Net loss	(219)	(2,148)	(3,070)	(634)
Per share, basic and diluted	$ (0.00)	$ (0.02)	$ (0.04)	$ (0.01)
	Three months ended			
	September 30, 2018	**June 30, 2018**	**March 31, 2018**	**December 31, 2017**
Total daily production (boe/d)	655	736	859	1,038
Average wellhead price ($/boe)	$ 39.83	$ 44.06	$ 44.87	$ 40.03
Petroleum and natural gas sales	2,401	2,949	3,469	3,824
Cash provided by (used in) operating activities	(1,511)	(447)	(3,935)	7,484
Adjusted funds flow (used) [14]	(430)	461	545	(446)
Per share, basic and diluted	(0.01)	0.01	0.01	(0.01)
Net loss	(2,647)	(1,404)	(2,435)	(946)
Per share, basic and diluted	$ (0.03)	$ (0.02)	$ (0.03)	$ (0.01)

Quarterly Information

Significant factors that have impacted the Company's results during the above periods include:

- Revenue is directly impacted by the Company's ability to mitigate natural production declines with production additions from an on-going capital expenditure programme and acquisitions.
- Valeura has benefited from relatively high natural gas prices and netbacks in Turkey compared to North America. The 2018 and 2019 increases to the BOTAS Reference Price has resulted in higher wellhead price realisation in Q4 2018, Q1 2019, Q2 2019 and Q3 2019. These reference price increases offset the effect of the weakening of the TL since 2017.
- With its revenues in TL, capital expenditures primarily in USD and reporting currency in CAD, Valeura has a high level of foreign exchange and currency translation exposure.

[14] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

Critical Accounting Policies

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. The reader is referred to Valeura's December 31, 2018 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Changes in Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarised and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on July 1, 2019 and ending on September 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at September 30, 2019 other than those previously disclosed under the Commitments and Contractual Obligations section of this MD&A.

Financial Instruments

Financial instruments of the Company include cash, accounts receivable, accounts payable and accrued liabilities. The carrying values of the financial instruments approximate their fair values due to their relatively short periods to maturity.

Business Risks and Uncertainties

There are a number of risk factors that the Company faces as a participant in the international oil and gas industry.

All risk factors have not materially changed from December 31, 2018. The reader is referred to Valeura's December 31, 2018 audited consolidated financial statements, MD&A and 2018 AIF for a description of these risks.

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is for the purpose of explaining management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", "target" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to: the 2019 work programme and capital budget; the timeliness and costs for the deep drilling programme in 2019; the ability to test the deep zone on Devpinar-1; the ability of the reservoir stimulation and flow testing programme on Inanli-1 and Devepinar-1 to deliver the results desired; the Company's ability to use the results from the current programme to understand the flow characteristics and fluid compositions of the rock across the wide depth range of the BCGA; the assessment of resources in the test formations; the ability to identify one or more zones which exhibit the potential for sustained commercial gas flow; the Company's scenario planning for its next appraisal steps following the stimulation and testing campaign; the ability to shift priorities to maximising access to high graded stratigraphic intervals via horizontal wells and multi-stage reservoir stimulation; the potential of a basin-centered gas play in the Thrace Basin; management's belief regarding the potential of the Company's deep basin-centred gas play and shallow gas business in the Thrace Basin; the Company's belief in the pervasiveness of over-pressured gas across the Company's Thrace Basin Lands; the Company's expectation that it will maintain operatorship of the deep rights on the Banarli Lands and West Thrace Lands during 2019 and into 2020; the Company's expectation that Equinor will fulfill its obligations under the Banarli farm-in; the optimization of the Company's conventional shallow gas assets; the Company's commitment to safety, environmentally responsible practices and optimising operational and administrative functions; the Company's business strategy and outlook, operational plans, and expected capital expenditures; the Company's expected working capital in 2019; and the availability of operating cash flow and the ability to finance development through to 2020 from existing working capital and operating cash flow.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: political stability of the areas in which the Company 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; the identification of one or more ones that exhibit the potential for sustained gas flow; future seismic and drilling activity on the expected timelines; the prospectivity of the TBNG JV Lands and Banarli Exploration Licences, including the deep potential; the continued favourable pricing and operating netbacks in Turkey; future production rates and associated operating netbacks and cash flow; decline rates; 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 Company's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. In addition, the Company'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, high-pressure stimulation and other specialised oilfield equipment and service providers, changes in partners' plans and unexpected delays and changes in market conditions. Although the Company 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. Exploration, appraisal, and development of oil and natural gas reserves are speculative activities and involve a degree of risk. A number of factors could cause actual results to differ materially from those anticipated by the Company including, but not limited to: the risks of currency fluctuations; changes in gas prices and netbacks in Turkey; potential changes in JV partner strategies and participation in work programmes; uncertainty regarding the contemplated timelines and costs for the deep evaluation; 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 or civil unrest in Turkey; potential changes in laws and regulations, the uncertainty regarding government and other approvals; counterparty risk; risks associated with weather delays and natural disasters; and the risk associated with international activity. The forward-looking information included in this MD&A is expressly qualified in its entirety by this cautionary statement. See the 2018 AIF for a detailed discussion of the risk factors.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement.