valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 31, 2019 and 2018

(tabular amounts in thousands of United Sates 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 March 12, 2020 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 31, 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, 2019 ("2019 AIF").

Effective December 31, 2019, the Company changed its presentation currency from Canadian Dollars ("CAD") to US Dollars ("USD") to better reflect the Company's business activities, the needs of investors and comparability to peers in the oil and gas industry. Refer to note 2 of Valeura's audited consolidated financial statements for the year ended December 31, 2019 for further information. All comparative amounts have been restated.

Basis of Presentation

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

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 months and years ended December 31, 2019 and 2018

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

Highlights and Selected Financial Information

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Financial				
Petroleum and natural gas sales	**$ 2,653**	$ 2,384	**$ 10,177**	$ 9,249
Net loss	**(735)**	(481)	**(4,815)**	(5,519)
Per share, basic and diluted	**(0.01)**	(0.01)	**(0.06)**	(0.07)
Adjusted funds flow [1]	**1,595**	2,330	**3,741**	2,789
Per share, basic and diluted	**0.02**	0.03	**0.04**	0.03
Cash provided by (used in) operating activities	**$ 2,286**	$ 4,048	**$ 1,572**	$ (479)
Production volumes				
Natural gas (Mcf/d)	**3,877**	3,689	**3,907**	4,257
Crude oil (bbl/d)	**-**	8	**9**	8
Total (boe/d)	**646**	623	**660**	717
Sales prices				
Natural gas (per Mcf)	**$ 7.44**	$ 6.86	**$ 6.98**	$ 5.82
Crude oil (per bbl)	**-**	79.02	**64.90**	72.36
Total (per boe)	**44.64**	41.62	**42.21**	35.33
Exploration and development capital	**3,669**	2,739	**11,801**	6,144
Banarli farm-in payments received	**-**	-	**(1,452)**	-
Working capital[2]			**37,645**	43,884
Cash			**$ 36,111**	$ 45,993
Weighted average shares outstanding Basic and diluted (thousands)[3]	**86,585**	86,222	**86,562**	83,659

Outstanding Share Data

	December 31, 2019
Common shares	86,584,989
Stock options	5,836,667
Fully Diluted	92,421,656

[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.

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

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 transformed the Company by increasing the size of the asset base, giving Valeura operatorship of all key assets, and providing the financial capacity and a partner for the first phase of exploration and appraisal of the unconventional basin-centered gas accumulation ("BCGA") play.

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 discovery of deep, unconventional gas/condensate in Yamalik-1, Inanli-1 and Devepinar-1 wells, the primary focus of Valeura's business has transitioned to the delineation and commercial demonstration of the BCGA play. However, the Company still continues to optimise its established conventional shallow gas assets in the Thrace Basin.

As at December 31, 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 & License	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
Edirne 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 Licence	Operated	1	88,434	81.50%	72,074	31.5%	27,857
Total			**456,470**		**373,558**		**255,662**

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").

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.

On the West Thrace Lands, The Company has a 31.5% working interest in deep rights which is held by TBNG, and an 81.5% working interest in shallow rights which is jointly held by TBNG (as to 41.5%) and CRBV (as to 40%). Valeura is the operator of the West Thrace Lands which are subject to joint operating agreements. The Company currently plans to drill two wells on the West Thrace Exploration Licence during Q2 2020 which will fulfil the remaining obligation in the current term of this licence.

The Company holds two exploration licences in the Banarli (the "Banarli Exploration Licences") Lands, being the lands comprising the licences described above. The Company holds a 100% working interest in the shallow rights and 50% working interest in the deep rights through CRBV. These 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 in the current term of the licences has been completed, except for geological and geophysical studies, which are ongoing and are expected to satisfy the obligation.

On February 14 2020, Equinor provided formal notice under the applicable joint operating agreements ("JOAs") for both the Banarli Exploration Licences, the West Thrace Exploration Licence and the West Thrace Production Leases that they are withdrawing from the joint operations. Under the JOAs, Equinor's working interests reverts to the remaining partners in the blocks. This change of working interest between the parties must be approved by the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA") before it becomes effective.

The Company's wholly-owned subsidiary, Valeura Energy Netherlands BV ("VENBV") holds a 35% working interest in three production leases in Edirne. These leases currently do not have active operations or production and were fully impaired in 2016. The Company signed an agreement in Q3 2019 to transfer its interest in these licences to the operator for nominal consideration. This transfer is dependent on GDMPA approval, for which the Company has submitted an application.

Business Environment

Throughout 2019, the economic situation in Turkey was relatively stable. The rate of inflation and interest rates have both decreased throughout the year. The Turkish Lira ("TL") declined in the first quarter, stabilised for a period, and then declined again at the end of the year, declining by a total of approximately 12% against the USD during 2019.

The events in northern Syria did not directly impact 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. Production operations and the appraisal testing programme have progressed safely and as planned. The Company was unaffected by the short-lived US Sanctions which were applied to two government ministries and three individuals in 2019.

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 of the Company. Significant changes could occur which could materially impact the assumptions and estimates made in this MD&A.

Operations and Outlook

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 approximately 55 light industry customers. Valeura is the operator of all of its production operations.

The Company's production generates strong operating netbacks, most recently in excess of $24/boe, which both generates operating income for the business and underscores the long-term potential value of the Company's unconventional gas resource. In Q1 2020, the Company is continuing with selective low-cost workovers throughout the conventional play, which has recently yielded an increase in production, more than offsetting natural declines from the existing fields. This programme has been both technically and financially successful. Given the high netbacks, individual projects have generally delivered payback on the order of a few weeks or months. These operations are expected to continue throughout much of 2020 incorporating results from the programme to guide future activities.

In addition, the Company has undertaken a study since mid 2019 to assess the potential for further exploitation of its conventional play. The Company currently plans to drill two wells on the West Thrace Exploration Licence during Q2 2020 which will fulfil the remaining obligations in this licence.

Deep Unconventional Gas 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 three wells into deeper, over-pressured formations which provided more evidence supporting the BCGA play concept. The Company then completed transactions with Equinor in 2016 and 2017 including a farm-in to the Banarli Exploration Licences (the "Banarli Farm-in") and sale of part of its interest in the West Thrace Lands (the "West Thrace Sale") 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 Lands.

On Inanli-1, four intervals were stimulated and tested and all four zones produced gas at stabilised rates. The flow data has enabled the Company to identify trends in fluid composition across the vertical column accessed and these data are being analysed in conjunction with petrophysical and core data. Operations on Inanli-1 were suspended in late October 2019. The well has been left in a state to enable potential re-entry in the future to conduct additional work.

In Q4 2019 the deepest zone in the Devepinar-1 well was stimulated and flow tested. The well was successfully flowed for several weeks. Interpretation suggested that the zone tested was naturally fractured allowing vertical flow over more than 100 metres of vertical section. Well operations were suspended in mid-December 2019. In Q1, 2020 production tubing was installed and the well was left in a state that would enable a long term production test in the future.

On February 14, 2020 Equinor provided formal notice under the Joint Operating Agreements that they intend to withdraw from all production leases and exploration licences where they hold rights to appraise the deep unconventional gas play. Valeura and Equinor are finalising commercial agreements to effect the withdrawal of Equinor from the leases and licences. In addition, Valeura is seeking routine government approval for the transfer of Equinor's working interest to the remaining joint venture partners. Also, Valeura is preparing exploration licence renewal applications for Banarli and West Thrace to extend the terms to June 26, 2022.

Valeura is planning for the next phase of appraisal of the unconventional gas play and is exploring partnering options.

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

Results of Operations

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Petroleum and natural gas sales	**$ 2,653**	$ 2,384	**$ 10,177**	$ 9,249
Royalties	**(358)**	(327)	**(1,370)**	(1,245)
Production costs	**(838)**	(649)	**(3,020)**	(2,789)
Operating netback[4]	**1,457**	1,408	**5,787**	5,215
Other income	**343**	615	**1,718**	1,725
General and administrative expenses	**(449)**	(341)	**(2,350)**	(2,913)
Transaction costs	**-**	-	**(983)**	(227)
Realised foreign exchange gain (loss)	**80**	503	**(431)**	(366)
Current tax recovery (expense)	**164**	145	**-**	(645)
Adjusted funds flow[5]	**1,595**	2,330	**3,741**	2,789
Non-cash expenses				
Share-based compensation	**(326)**	(411)	**(1,766)**	(1,162)
Accretion on decommissioning liabilities	**(180)**	(1,075)	**(1,261)**	(2,217)
Unrealised foreign exchange gain (loss)	**(469)**	868	**(427)**	767
Depletion and depreciation	**(1,053)**	(1,463)	**(4,633)**	(5,643)
Deferred tax expense	**(302)**	(730)	**(469)**	(53)
Net loss	**$ (735)**	$ (481)	**$ (4,815)**	$ (5,519)

Sales Volumes

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Natural gas (Mcf/d)	**3,877**	3,689	**3,907**	4,257
Crude oil (bbl/d)	**-**	8	**9**	8
Total (boe/d)	**646**	623	**660**	717

Sales volumes for Q4 2019 and the year ended December 31 2019, were 646 boe/d and 660 boe/d, respectively, compared to 623 boe/d and 717 boe/d for the same periods in 2018. Sales volumes in Q4 2019, increased in comparison to the same period in 2018 as a result of successful workovers partially offset by natural declines and no oil liftings during the quarter. While the Company continued to produce oil in Q4 2019, no oil sales were recorded as the oil was stored prior to sale. Devepinar-1 tested during Q4 2019 and sales were credited against capital expenditures and are not included above. Sales volumes for the year ended December 31, 2019, decreased in comparison to the same period in 2018 due to natural declines partially offset by successful workovers. Inanli-1 and Devepinar-1 tested during the year and 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 8.

[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.

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

Pricing Information

	Three months ended		Years ended	
Average reference prices	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Natural gas – BOTAS (per Mcf)[6]	**TL 43.67**	TL 38.08	**TL 40.41**	TL 27.80
Natural gas – BOTAS (per Mcf)	**$ 7.54**	$ 6.90	**$ 7.13**	$ 5.89
Average exchange rate (TL/USD)	**5.79**	5.52	**5.67**	4.72

	Three months ended		Years ended	
Average realised prices	**December 31, 2019**	December 31, 2018	**December 31, 2019**	December 31, 2018
Natural gas (per Mcf)	**$ 7.44**	$ 6.86	**$ 6.98**	$ 5.82
Crude oil (per bbl)	**$ -**	$ 79.02	**$ 64.90**	$ 72.36

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 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 2019 average realised natural gas price in Turkey increased 20% to $6.98 per Mcf from $5.82 per Mcf in 2018 due to the price increases in 2018 and 2019.

In Q4 2019, the average realised natural gas price in Turkey of $7.44 per Mcf represents a 1.0% discount to the BOTAS benchmark price. The increase in Q4 2019 in comparison to the same period in 2018 is due to the price increase effective August 1, 2019.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Natural gas	**$ 2,653**	$ 2,327	**$ 9,954**	$ 9,002
Crude oil	**-**	57	**223**	247
Total revenues	**$ 2,653**	$ 2,384	**$ 10,177**	$ 9,249

[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 2019 AIF for further discussion.

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

Petroleum and natural gas sales revenues for the year ended December 31, 2019, was 98% natural gas and 2% crude oil. Variations in the amount of condensate produced in a quarter is primarily due to how many liftings occur in the quarter. Gas revenues for Q4 2019 and the year ended December 31, 2019 increased in comparison to the same periods in 2018 due primarily to higher prices offset partially by lower volumes.

Royalties

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Royalties	**$ 358**	$ 327	**$ 1,370**	$ 1,245
Percentage of revenue	**13.5%**	13.7%	**13.5%**	13.5%

Revenues are subject to a 12.5% government royalty and an overriding royalty only on the TBNG JV Lands of 1%. Royalty payments for Q4 2019 and the year ended December 31, 2019, increased in comparison to the same periods in 2018 as a result of higher petroleum and natural gas sales revenues.

Production Costs

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Production costs	**$ 838**	$ 649	**$ 3,020**	$ 2,789
$ per boe	**14.09**	11.34	**12.53**	10.65

Production costs for Q4 2019 and the year ended December 31, 2019, are higher in comparison to the same periods in 2018 due to increased costs for operating workovers and increased personnel costs. The higher unit production costs for the year ended December 31, 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		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Petroleum and natural gas sales	**$ 44.64**	$ 41.62	**$ 42.21**	$ 35.33
Royalties	**(6.02)**	(5.71)	**(5.68)**	(4.75)
Production costs	**(14.09)**	(11.34)	**(12.53)**	(10.65)
Operating netback[7]	**$ 24.53**	$ 24.57	**$ 24.00**	$ 19.93

Operating netbacks in Q4 2019 remained consistent when compared to the same period in 2018 due to higher realised prices offset by higher per unit production costs. Operating netbacks for the year ended December 31, 2019 increased in comparison to the same period 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 and reconciliation on page 8.

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General and Administrative Expenses

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
General and administrative expenses	**$ 1,359**	$ 1,313	**$ 6,062**	$ 6,053
Recoveries and capitalised general Administrative expenses	**(910)**	(972)	**(3,712)**	(3,140)
Total general and administrative expenses	**$ 449**	$ 341	**$ 2,350**	$ 2,913

General and administrative expenses before recoveries in 2019 remained consistent in comparison to the same periods in 2018. Net general and administrative expenses in Q4 2019 increased in comparison to the same period in 2018 as a result of decreased overhead recoveries. Net general and administrative expenses for the year ended December 31, 2019, decreased in comparison to the same period in 2018 due to increased overhead recoveries. Overhead recoveries are realised primarily from operating the BCGA deep drilling and testing programme. Amounts are specifically related to employee time charged to capital projects and overhead charges based on capital spending levels allowed under the JOAs.

Transaction Costs

During Q4 2019 and the year ended December 31, 2019, the Company recorded transaction costs of nil and $1.0 million, respectively, compared to nil and $0.2 million for the same periods in 2018. 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. The 2018 transactions costs relate to success fee payments for the Banarli-Farm-in.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q4 2019 and the year ended December 31, 2019, was a loss of $0.4 million and a loss of $0.9 million, respectively, compared to a gain of $1.4 million and $0.4 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 will negatively impact the Company's costs of drilling and completions activities. Future USD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators, 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.

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

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

+/- 1% change in realised TL/USD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended December 31, 2019	$ 27	$ 4	$ 8
Year ended December 31, 2019	$ 108	$ 13	$ 30

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

+/- 1% change in realised TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended December 31, 2019	$ 18
Year ended December 31, 2019	$ 86

Other Income

	Three months ended		**Years ended**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Third party natural gas sales net of costs	**$ 156**	$ 269	**$ 701**	$ 755
Interest and other revenue	**187**	346	**1,017**	970
Other Income	**$ 343**	$ 615	**$ 1,718**	$ 1,725

Other income is comprised of third party processing and marketing income and interest income related to cash on hand. The majority of the decrease for Q4 2019 can be attributed to interest income as a result of a lower average cash levels in Q4 2019 in comparison to Q4 2018. Other income for the year ended December 31, 2019 is comparable to the same period in 2018.

Current Tax

Current tax for Q4 2019 and the year ended December 31, 2019 was a recovery of $0.2 million and $ nil, respectively, compared to a recovery of $0.2 million and an expense of $0.6 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 Q4 2019 and the year ended December 31, 2019 was $1.6 million and $3.7 million, respectively, compared to $2.3 million and $2.8 million for the same periods in 2018. The decrease in adjusted funds flow in Q4 2019 was due to higher production costs and general administrative expenses partially offset by increased sales revenue. The increase for the year ended December 31, 2019 was due to increased realised prices and lower general administrative expenses partially offset by increased transaction costs and foreign exchange losses.

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

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

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Cash provided by (used in) operating activities	**$ 2,286**	$ 4,048	**$ 1,572**	$ (479)
Decommissioning costs incurred	**136**	101	**554**	406
Change in non-cash working capital	**(827)**	(1,818)	**1,615**	2,862
Adjusted funds flow [8]	**$ 1,595**	$ 2,331	**$ 3,741**	$ 2,789

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 Q4 2019 and the year ended December 31, 2019, was $0.3 million and $1.8 million, respectively, compared to $0.4 million and $1.2 million for the same periods in 2018. During the year ended December 31, 2019, the Company granted 2,025,000 options with a weighted average exercise price of CAD $2.94.

Accretion on Decommissioning Liabilities

Accretion on decommissioning obligations for Q4 2019 and the year ended December 31, 2019, was $0.2 million and $1.3 million, respectively, compared to $1.1 million and $2.2 million for the same periods in 2018. The decrease is due to lower levels of inflation in 2019 in comparison to 2018.

Depletion and Depreciation

Depletion and depreciation for Q4 2019 and the year ended December 31, 2019, was $1.1 million and $4.6 million, respectively, compared to $1.5 million and $5.6 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 Q4 2019 and the year ended December 31, 2019, was $17.72/boe and $19.23/boe, respectively, compared to $25.53/boe and $21.56/boe for the same periods in 2018.

Deferred Tax

Deferred tax for Q4 2019 and the year ended December 31, 2019, was an expense of $0.3 million and an expense of $0.5 million, respectively, compared to an expense of $0.7 million and $0.1 million for the same periods in 2018.

[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.

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

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 Q4 2019 and the year ended December 31, 2019 was a loss of $0.8 million and a loss of $1.9 million, respectively, compared to a loss of $1.6 million and $9.0 million for the same periods in 2018 reflecting the fluctuation in the value of the TL compared to the USD in the respective periods.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Geological and geophysical	**$ 322**	$ 63	**$ 672**	$ 177
Drilling & completions	**2,340**	2,324	**8,164**	5,238
Workovers & recompletions	**707**	60	**2,254**	419
Equipping, facilities & other	**300**	37	**711**	310
Total exploration and development capital programme	**3,669**	2,484	**11,801**	6,144
Banarli farm-in payments received	**-**	-	**(1,452)**	-
Total net capital [9]	**$ 3,669**	$ 2,484	**$ 10,349**	$ 6,144

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 2019 was $11.8 million, including $8.1 million for drilling and completions, $ 2.3 million for workovers and recompletions, $0.7 million for equipping and other, and $0.7 million for geological and geophysical. The Company spent $10.1 million on the deep drilling and testing programme and $1.7 million on the shallow operations.

During 2019, the Company's focus was on the deep drilling and testing programme. The drilling and completion costs in 2019 were primarily related to Valeura's 31.5% working interest share of the drilling and completion costs of the Devepinar-1 well and the Yamalik-1 recompletion. Equinor funded the drilling and testing of Inanli-1 under the Banarli Farm-in agreement.

[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.

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

Phase 2 of the Banarli Farm-in was a commitment to complete a 3D seismic programme with a minimum cost of $10 million. The final cost total for the Karaca 3D seismic programme, agreed by partners in Q1 2019 totalled $8.5 million, requiring an additional payment from Equinor to Valeura of USD$1.5 million, which is recorded as an additional farm-in payment against exploration and evaluation assets.

2020 Capital Programme

Valeura's planned 2020 capital programme related to its shallow production operations includes approximately $1.5 million in low-cost workovers of existing producing wells and approximately $1.5 million for the drilling of two wells on the West Thrace Exploration Licence.

The full year capital programme for the deep unconventional BCGA is under review and is subject to partnering and Government approval of the first 2-year extension phase of the Banarli and West Thrace Exploration Licences. However, capital is currently committed for studies and to undertake in Q2 2020 a long-term test of the deepest zone that was stimulated in the Devepinar-1 well. Estimated capital for this work is approximately $1.3 million.

Share Capital

Common shares	Number of Shares	Amount
Balance, December 31, 2018	86,232,988	$ 179,384
Stock options exercised	352,001	333
Balance, December 31, 2019	**86,584,989**	**$ 179,717**

As at December 31, 2019, Valeura had 86,584,989 common shares outstanding and 5,836,667 outstanding options, for a total diluted number of shares outstanding of 92,421,656, assuming exercise of all options. As at March 12, 2019, Valeura has 86,584,989 common shares outstanding and 5,848,334 outstanding options.

Liquidity, Financing and Capital Resources

	Three months ended		**Years ended**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Opening cash position	**$ 38,486**	$ 43,756	**$ 45,993**	$ 8,833
Inflow of funds				
Share issuance – net of share issuance costs	**-**	-	**-**	43,815
Banarli farm-in payments received	**-**	-	**1,452**	-
Restricted cash	**6**	1,604	**-**	2,321
Proceeds from stock option exercises	**-**	73	**201**	1,480
Foreign exchange on cash	**136**	-	**571**	-
Adjusted funds flow[10]	**1,595**	2,330	**3,741**	2,789
Change in non-cash working capital[11]	**-**	2,412	**-**	-
	1,737	6,419	**5,965**	50,405

[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.

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

Outflow of funds				
Capital expenditures[12]	**(3,669)**	(2,484)	**(11,801)**	(6,144)
Decommissioning costs incurred	**(136)**	(101)	**(554)**	(406)
Payments on leases	**(22)**	-	**(75)**	-
Restricted cash	**-**	-	**(62)**	-
Change in non-cash working capital	**(285)**	-	**(3,355)**	(4,956)
Adjusted funds flow	**-**	-	**-**	-
Foreign exchange on cash	**-**	(1,597)	**-**	(1,739)
	(4,112)	(4,182)	**(15,847)**	(13,245)
Closing cash position	**$ 36,111**	$ 45,993	**$ 36,111**	$ 45,993

Capital Funding and Resources

As at December 31, 2019, Valeura's working capital[13] balance was $37.6 million including cash of $36.1 million. Valeura's 2019 opening cash position was $46.0 million. In 2019, the Company utilised this opening cash balance plus funds flow from operations to fund an exploration and development capital programme of $11.8 million. In addition, the Company has recorded a payment of $1.5 million from Equinor related to the under-funding of the 3D seismic commitment under the Banarli Farm-in agreement.

Financial Capacity

As at December 31, 2019 the Company's working capital[13] was $37.6 million. The working capital position is more than sufficient to fund the planned capital programme for 2020 as described above.

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 adjusted 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.

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 adjusted funds from operations. This ratio represents the time period

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

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

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

it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

Restricted Cash

The Company has restricted cash in the amount of $0.3 million (December 31, 2018 - $0.2 million) that is securing licence deposits with the GDMPA. This restricted cash and deposit is security for decommissioning or abandonment obligations, gas purchases 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 December 31, 2019, the restricted cash has 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 $4.5 million and can be renewed on an annual basis. The Company has issued approximately $2.5 million in letters of credit under the APSG facility.

Selected Quarterly Information

	Three months ended			
	December 31, 2019	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Total daily production (boe/d)	646	531	700	768
Average wellhead price ($/boe)	$ 44.60	$ 44.32	$ 38.28	$ 42.25
Petroleum and natural gas sales	2,653	2,166	2,440	2,918
Cash provided by (used in) operating activities	2,286	600	(1,007)	(307)
Adjusted funds flow [14]	1,595	1,032	773	341
Per share, basic and diluted	0.02	0.02	0.01	0.01
Net loss	(735)	(166)	(1,605)	(2,309)
Per share, basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.03)

	Three months ended			
	December 31, 2018	**September 30, 2018**	**June 30, 2018**	**March 31, 2018**
Total daily production (boe/d)	623	655	736	859
Average wellhead price ($/boe)	$ 41.62	$ 30.47	$ 34.14	$ 35.48
Petroleum and natural gas sales	2,384	1,837	2,285	2,743
Cash provided by (used in) operating activities	4,047	(1,127)	(317)	(3,082)
Adjusted funds flow (used) [14]	2,330	(329)	357	431
Per share, basic and diluted	0.03	(0.01)	0.01	0.01
Net loss	(480)	(2,025)	(1,088)	(1,926)
Per share, basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.02)

[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 and reconciled on page 11.

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

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; and
- With its revenues in TL, capital expenditures primarily in reporting currency USD and in CAD, Valeura has exposure related to foreign exchange and currency translation. However, this risk is currently minimal given the large cash position held in USD and CAD.

Fourth Quarter Review

Petroleum and natural gas sales were up 11 percent from Q4 2018 due primarily the BOTAS Reference Price increase. The Company spent $3.7 million on exploration and development capital which was funded by adjusted funds flow and the existing cash position. Net loss of $0.7 million was recorded in Q4 2019, which reflects recognition of $1.1 million of depletion and depreciation, $0.3 million of share-based compensation, $0.2 million of accretion on decommissioning liabilities and $0.3 million deferred tax expense.

Selected Annual Information

			Years Ended
	December 31, 2019	December 31, 2018	December 31, 2017
Petroleum and natural gas sales	$ 10,177	$ 9,249	$ 11,292
Cash provided by (used in) operations	1,572	(479)	2,971
Adjusted funds flow [15]	3,741	2,789	(929)
Per share, basic and diluted	0.04	0.03	(0.02)
Net loss	(4,815)	(5,519)	(6,464)
Per share, basic and diluted ($/share)	(0.06)	(0.07)	(0.09)
Daily production (boe/d)	660	717	952
Sales price ($/boe)	42.21	35.33	32.51
Cash	36,111	45,993	8,833
Total assets	81,663	94,614	71,464
Total long term liabilities	9,952	13,063	17,237
Net working capital[16]	$ 37,645	$ 43,884	$ 2,721

Valeura's petroleum and natural gas sales, cash provided by operations, adjusted funds flow and net loss are all impacted by production levels and commodity pricing. Daily production in 2019 decreased 8 percent from 2018 due to natural declines on both the TBNG JV and Banarli Exploration Licences. Natural gas prices were strong in Turkey over the three year period and have not been negatively impacted by the devaluation of the TL to the USD. Total assets in 2018 and 2019 increased as a result of the 2018 public offering but were negatively impacted by the devaluation of the TL against the USD.

[15] 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 reconciled on page 11.

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

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

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, 2019 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Changes in Significant Accounting Policies

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

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

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

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

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

In January 2016, the IASB issued the complete 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.

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

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 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 Q4 2019 and the year ended December 31, 2019 is a reduction to the loss for the period as follows:

	Three months ended	Year ended
Cost	December 31, 2019	December 31, 2019
Depreciation of right of use asset	$ (20)	$ (69)
Interest Expense	(5)	(21)
Lease Principal Payments	33	97
Balance, December 31, 2019	**$ 8**	**$ 7**

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarised and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the officers concluded that Valeura's DC&P were effective as at December 31, 2019.

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorisations of management and Directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2019, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2019 and concluded that as of December 31, 2019, ICFR was effective. The Company uses the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") – Integrated Framework ("2013 Framework"). Valeura has designed its internal controls over financial reporting based on the 2013 Framework. 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 December 31, 2019.

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

The reader is referred to the 2019 AIF for a more complete description of business risks and uncertainties.

The Company is largely reliant on the success of the Thrace Basin assets and other exploration assets in Turkey

The Thrace Basin assets are anticipated to be the Company's sole source of near-term revenue earnings. A significant portion of the Company's reserves are associated with undeveloped natural gas and reserves in tight formations. Whilst the Company has drilled and stimulated normally-pressured, tight formations in many shallow wells, experience in drilling and stimulating over-pressured, tight formations in deep wells is very limited. There is uncertainty regarding the sustainability of initial production rates and decline rates thereafter. Management believes that shallow gas wells and high-pressure stimulated tight gas wells will exhibit relatively high decline rates of 50% and 75%, or more, respectively, in their first year of production. There are also risks and uncertainty regarding the Company's ability to address technical drilling challenges and the management of water production, as required. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future operations, liquidity and financial condition of the Company.

A significant portion of the Company's potential future value is estimated to be associated with the natural gas prospective resource associated with the deep, unconventional basin-centered, gas/condensate play discovered with the Yamalik-1 exploration well. This play is still in the early phase of exploration and appraisal with large uncertainties and risk. Whilst there are eight historic wells and three new wells drilled in the 2017 to 2019 period around the basin that all are interpreted to have encountered high-pressure gas at depth, the current well density in the basin and this play is still very low. There are large uncertainties laterally across Valeura's land interests, and vertically in the target Kesan Formation, as to the presence of gas, the pressure of any gas, the amount of condensate in the gas and the commercial producibility of these hydrocarbons. Regional drilling data and 3D seismic interpretation indicate that the target Kesan Formation reservoir should be more than 2,000 metres thick with a high net sand but these interpretations need to be proven with drilling across the basin. Further, the porosity of the rock is very low and decreases with depth. The location of any sweet spots with high porosity and hence more gas is also still to be demonstrated both vertically and laterally. The above factors primarily affect the gas initially in place (GIIP). The ability to flow and recover gas commercially is still to be demonstrated. Most of the historic wells were drilled prior to high-pressure stimulation being a commonly accepted technique and none achieved a commercial flow rate using the perforation and testing techniques available at the time. Yamalik-1 was subjected to high-pressure stimulation on a number of intervals however at this point it has not demonstrated a commercial flow rate. High-pressure stimulation and testing were conducted in 2019 on Inanli-1 and Devepinar-1, and while gas flowed, longer term testing is required to demonstrate commercial flow rates.

In the longer term the Company will be dependent on the development of its Thrace Basin assets in Turkey. It is not uncommon for new gas developments to experience unexpected problems and delays during construction, commissioning and production start-up, or indeed for such projects to fail. Any adverse event affecting the development of the Thrace Basin assets, either during their development or following the commencement of production, would have a material adverse effect on the Company's business, results of operations, financial condition and the price of the Common Shares, as the Company has no other near-term source of revenue earnings.

Variations in Foreign Exchange Rates and Interest Rates

The Company's functional currency in its subsidiary operations in Turkey is the TL. The revenue stream in Turkey is based on TL revenue for natural gas sales and USD based revenue for crude oil translated into Turkish Lira. Decreases in the value of the TL could therefore result in decreases in revenue. The Company's drilling operations in Turkey and related contracts are based primarily in USD. Operating costs in Turkey are based primarily in TL. Increases in the value of the TL could result in increases in operating costs. Future USD/TL exchange rates could also impact the future value of the Company's reserves as determined by independent evaluators.

The volatility and weakness in the value of the TL may impair the ability of the Company to manage this exposure. Continued 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 from cash flow.

To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. Valeura continues to assess its exposure to all foreign currencies. The Company is in the process of specifically assessing its exposure to the TL and any possibilities that may exist to mitigate such exposure.

Foreign Operations

The Company pursues operations outside of Canada. As such, the Company's operations will be subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, interpretation or renegotiation of existing contracts, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. Problems may also arise due to the quality or failure of locally obtained equipment or technical support, which could result in failure to achieve expected target dates for exploration operations or result in a requirement for greater expenditure.

The Company will operate in such a manner as to minimise and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

Political Risks

As discussed previously, the political environment in Turkey has been impacted by recent events including the implementation of short-lived US Sanctions. The Company will continue to monitor conditions including the safety of personnel and operations, the security situation generally, impact on the TL and banking facilities, the functioning of the GDMPA, impact on the Company's joint venture partners and any changes in offtakes by our natural gas customers.

Price volatility, markets and marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Valeura will be affected by numerous factors beyond its control. Valeura's revenues, profitability, future growth and the carrying value of its oil and gas properties, provided such properties yield production, are substantially dependent on prevailing prices of oil and gas. Valeura's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of Valeura. These factors include economic conditions in the United States, Canada, and Turkey, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, and political instability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. In Turkey, natural gas prices for domestic sales are effectively set by the government, which are indirectly affected by these market forces. Any substantial and extended decline in the price of oil and gas would have an adverse effect on Valeura's carrying value of its oil and natural gas reserves, borrowing capacity, revenues, profitability and cash flows from operations. The exchange rate between CAD, USD and TL also affects the profitability of Valeura. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value.

Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects. Currently, the Company has no debt facilities in place. However, any bank borrowings available to Valeura in the future will in part be determined by Valeura's borrowing base. A sustained material decline in prices from historical average prices could reduce Valeura's borrowing base, therefore reducing the bank credit available to the Company and require that a portion, or all, of Valeura's bank debt, if any, be repaid.

Capital Requirements

The impact on capital markets caused by investor uncertainty in the global economy has a significant impact on the Company's business model. The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing will be available or that cash generated by operations will be sufficient to make these expenditures. If debt or equity financing is available, it may not be on terms acceptable to the Company. Failure to obtain such financing on a timely basis could cause the Company to reduce capital spending which would result in reduced production and the potential loss of exploration licences due to a failure to meet drilling deadlines.

In addition, evolving decarbonization policies of institutional investors, lenders and insurers could affect the Company's ability to access capital pools. Additionally, the Company may, from time to time, not meet the investment criteria or characteristics of a particular institutional or other investor, including institutional investors who are not willing or able to hold securities of oil and gas companies for reasons unrelated to financial or operational performance. Any changes in market-based factors or investor strategies or responsible investing criteria/rankings (for example, social impact or environmental scores), the implementation of new financial market regulations and fossil fuel divestment initiatives undertaken by governments, pension funds and/or other institutional investors, may adversely affect the Company's access to capital pools.

Third Party Credit Risk

The Company must successfully market its oil and natural gas to prospective buyers. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future marketers of its oil and natural gas production. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material impact on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital programme, potentially delaying the programme and the results of such programme unless sole risk provisions are available under the joint venture agreements.

Exploration, Development and Production

The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisition or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximising production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, the invasion of water into producing formations, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programmes. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company is not always able to control these risks when it is a non-operator.

Uncertainty of Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, many factors and assumptions are incorporated such as expected reservoir characteristics based on geological, geophysical and engineering assessments, future production rates based on historical performance and expected future operating and investment activities, future oil and gas prices and quality differentials, future development and operating costs and assumed effects of regulation by government agencies.

Properties will, over a period of time, actually deliver oil and natural gas in quantities different than originally estimated due to changes in reservoir performance. The timing of future capital expenditures is subject to uncertainty. Projected future commodity prices and the operating and capital cost structure are subject to significant management judgment and currently, highly volatile. Actions by foreign governments to alter their respective royalty and tax regimes may have a significant and unpredictable impact.

Environment

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. In international jurisdictions, environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. There are potential risks to the environment inherent in the business activities of the Company.

Public Health Crises, including COVID-19, could adversely affect the Company's business

A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price and demand for oil and gas. COVID-19 could affect the Company's ability to conduct operations and may result in temporary shortages of staff to the extent our work force is impacted. Such an outbreak, if uncontrolled, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Climate Change Legislation

Governments around the world have become increasingly focused on addressing the impacts of anthropogenic global climate change, particularly in the reduction of gases with the potential to contribute to greenhouse gas levels in the atmosphere. The oil and natural gas industry is subject to stringent environmental regulations. The political climate appears to favour new programmes for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is a risk that any such programmes, laws or regulations, if proposed and enacted, will contain emission reduction targets which may result in operating restrictions or compliance costs to avoid a breach of applicable legislation.

Climate change policy is emerging and quickly evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Implementation of strategies by any level of government within Turkey or countries the Company may operate in in the future, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition and ability to raise capital. It is also not possible at this time to predict whether any proposed legislations relating to climate change will be adopted, and any such regulations could result in operating restrictions or compliance costs.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The potential inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Revocation or expiration of exploration licences, production leases and other licences, leases and permits

Valeura's properties are held in the form of exploration licences, production leases and other licences, leases and permits (together "Licences") and working interests in such Licences. If Valeura, or any other holder of a Licence in which Valeura has an interest, fails to meet the specific requirement of a Licence, the Licence may be revoked or may terminate or expire. Whilst Valeura monitors the status and expiry of all of its current Licences, all of which are in Turkey, there can be no assurance that any of the obligations required to maintain such Licences will be met. The revocation, termination or expiration of any of its Licences or the working interests relating to a Licence may have a material adverse effect on Valeura's results of operations and business. To the extent such Licences are subsequently suspended or revoked, Valeura may be curtailed or prohibited from proceeding with planned exploration, development or operation of its projects. Failure to comply with permitting and legal requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions which could have an adverse effect on Valeura's business, financial condition or operations.

The primary 5-year exploration phase for three of the Company's exploration licences are up for customary term renewal on June 26, 2020. Up to three two-year extensions are then permitted for each licence. The Company has fulfilled its work obligations in the current term of the two Banarli exploration licences (subject to confirmation that the ongoing geological and geophysical studies satisfy that component of the obligation) and is preparing to drill the two remaining wells in Q2 2020 required in the current term of the West Thrace exploration licence. The Company will then apply for the first 2-year extension period on both the Banarli and West Thrace exploration licences, in Q2 2020.

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 2020 work programme and capital budget; the ability to extend the term of the Banarli and West Thrace exploration licences beyond June 26, 2020; the timeliness and costs for the deep appraisal and testing programme in 2020; the ability to conduct a long term test on Devpinar-1; the impact of Equinor's withdrawal from joint operations and resulting working interest changes; the completion of geological and geophysical studies on the Banarli exploration licences and resulting satisfaction of the work programme obligations thereon in the current term of the licences; the planned drilling of two wells on the West Thrace exploration licence; the potential of a BCGA 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 optimisation 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 2020; and the availability of operating cash flow and the ability to finance development through 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; the impact of Equinor's withdrawal from joint operations; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future 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 joint venture 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 2019 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.