MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2018 and 2017

(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 May 9, 2018 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month period ended March 31, 2018 and 2017. 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, 2017 ("2017 AIF"). The reporting currency is the Canadian Dollar (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 2017 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, 2017.

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.

valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2018 and 2017

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

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2018	**March 31, 2017**
Financial		
Petroleum and natural gas sales	**$ 3,469**	$ 3,088
Net loss	**(2,435)**	(2,001)
Per share, basic and diluted	**(0.03)**	(0.03)
Adjusted funds flow[1]	**545**	(2,883)
Per share, basic and diluted	**$ 0.01**	$ (0.04)
Production volumes		
Natural gas (Mcf/d)	**5,066**	4,825
Crude oil (bbl/d)	**15**	3
Total (boe/d)	**859**	807
Sales prices		
Natural gas (per Mcf)	**$ 7.37**	$ 7.06
Crude oil (per bbl)	**82.61**	72.83
Total (per boe)	**44.87**	42.49
Exploration and development capital	**874**	1,932
Acquisitions	**-**	21,450
Dispositions	**-**	(22,315)
Working capital[2]	**58,524**	7,545
Cash	**$ 56,899**	$ 5,760
Weighted average shares outstanding		
Basic and diluted (thousands) [3]	**76,657**	64,208

Outstanding Share Data

	March 31, 2018
Common shares	83,675,321
Stock options	7,298,000
Fully diluted	90,973,321

[1] Non-GAAP measure – see note regarding non-GAAP measures on page 18.

[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".

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 fully explore and appraise the unconventional basin-centered gas accumulation ("BCGA") play. Additionally, the Company has secured Statoil 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 March 31, 2018, the Company held an interest in 21 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.53 million gross acres (0.43 million net acres of shallow rights and 0.3 million net acres of deep rights). The Thrace Basin assets include an 81.5% working interest in the shallow rights and deep rights of 11 production leases referred to as the ("**South Thrace Lands**")**,** and an 81.5% (shallow rights) working interest, 31.5% (deep rights) working interest in 3 production leases and 2 exploration licenses, referred to as the ("**West Thrace Lands**") (together the "**TBNG JV"**), and a 100% (shallow rights) and a 50% (deep rights) working interest in the two Banarli exploration licenses (the "**Banarli Licences**").

The Thrace Basin lands have shallow gas production and further development and exploration potential from both conventional reservoirs and tight gas reservoirs. All or some of the Banarli Licenses, West Thrace Lands and South Thrace Lands are also believed to have potential for an unconventional BCGA play in over-pressured formations below approximately 2,500m. Valeura has recently drilled, completed and flow-tested the Yamalik-1 gas-condensate discovery on the Banarli Licenses. This well successfully proved the BCGA thesis concept at this location.

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 massive BCGA play. However, the Company still continues to optimize the established conventional shallow gas assets in the Thrace Basin.

Operations

Production Operations

The Company generates cash flow from sales of petroleum and natural gas production from its assets in the Thrace Basin of Turkey. Natural gas is currently produced from approximately 91 wells (gross), with approximately 70% of the production coming from conventional shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500m to 1,500m. 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.

BCGA Play

Valeura completed a number of transactions in 2016 and 2017 including the Banarli Farm-in, under which Statoil was given the option to earn a 50% interest in the deep formations on the Banarli Licenses by investing at least US$36 million in a three phase work program, which includes a cost of carry of Valeura on two deep wells and new 3D seismic. During 2017 the first phase was completed, and during Q1, 2018 the second phase was completed. Valeura and Statoil are now planning the Inanli-1, which will satisfy phase three of the Banarli Farm-in work program once it is completed and tested.

Valeura is operator of the deep exploration program in both Banarli and West Thrace Lands during the earning phase of the Banarli Farm-in. Once Statoil has fully earned its 50% interest in Banarli, Statoil has the option to request operatorship of the deep program.

2018 Offering

On March 1, 2018 the Company closed a financing, issuing common shares for net proceeds of approximately $55.4 million, after share issue costs (the "2018 Offering"). Valeura intends to use the net proceeds from the 2018 Offering to fund its 2018 and 2019 capital program and for general corporate purposes.

Work Program

During Q1 2018, the Company completed workovers on five gross wells on the TBNG JV lands and one workover on the Banarli Licenses.

The Yamalik-1 gas-condensate discovery well was drilled safely by Valeura with its partner, Statoil, in mid-2017. This well encountered almost 1,300m of highly overpressured, gas saturated reservoir below 2,900m and demonstrated the presence of an unconventional BCGA. Eight slick-water fracs followed by four well tests resulted in a 24-hour aggregate production test rate of 2.9 MMcf/d of gas.

Valeura is now proceeding with engineering and design work to enable Yamalik-1 to be tied into Valeura's gas gathering and sales network. Valeura is targeting to recommence operations in early Q3 2018. The project is expected be funded jointly by Valeura and Statoil. Additionally, Valeura and Statoil are planning the Inanli-1, West Thrace #1 Deep Well and Banarli #3 Deep Well which will be drilling starting in late Q3 2018. The results of the Karaca 3D seismic for which processing was completed in Q1 2018 are being used in the planning efforts, as well as for shallow gas operations in the area.

Political and Regulatory Environment

Turkey went through a period of political change and uncertainty in 2016 and 2017. During this period, the Company's ability to conduct drilling and production operations in the Thrace Basin has not been adversely affected by political or regulatory events. No unusual delays or security issues have been experienced and the Company continues to maintain a professional working relationship with local authorities and regulators. The main impact on Valeura during this period and thereafter has been the continued devaluation on the Turkish Lira.

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. Management acknowledges that its ability to make reliable estimates can be complicated by political, economic and security situation events as and when they occur. Management has based its estimates with respect to the Company's operations on information available up to the date of this MD&A.

Outlook

Valeura is fully focused on appraising and de-risking its BCGA discovered by the Yamalik-1 well. The objective of the 2018 and 2019 work program is to demonstrate that over-pressured gas is pervasive across Valeura's Thrace Basin lands and to show that commercial flow rates can be achieved. The key activities to support this objective are the tie-in and long-term testing of the Yamalik-1 well and a three well appraisal program.

Further testing of Yamalik-1 remains on schedule with activity planned to commence in early Q3 2018. Appropriate test equipment has been acquired in North America and is currently being mobilized to Turkey. Once this equipment arrives in Turkey, the Yamalik-1 testing program can resume. Pipeline approval to tie the Yamalik-1 well in to Valeura's gas marketing infrastructure is in place and construction is underway. The line will be commissioned in advance, so gas flaring during the testing phase can be reduced and eliminated for the long term test.

The first well in the appraisal drilling program will be Inanli-1. The well will be drilled 6 km to the north-east of the Yamalik-1 discovery well, in an area with high quality 3D seismic imaging. Inanli-1 is being designed to test the vertical extent of the BCGA, which includes planning to drill to a depth of 5,000m.

Preliminary locations for the second and third wells have been identified, and will be confirmed based on interpretation of the new Karaca 3D seismic data acquired in 2017. Final processing of this seismic survey and merging with Valeura's existing 3D datasets is complete and these data are being interpreted now.

The delineation drilling campaign is on schedule to commence in late Q3 2018 and the three wells will be drilled back-to-back. Each well is expected to take about two to two and half months to drill. Assuming that the well is successful, after the rig has completed drilling operations, the well will then be fraced and production tested. Procurement activities for the rig and the required equipment are in progress with long lead items having been ordered and a rig contract is anticipated to be signed in Q2 2018. The Inanli-1 well drilling and testing program will be fully funded by Valeura's joint interest partner, Statoil, and will complete their earning obligations under the Banarli Farm-in agreement.

The Company will drill one shallow gas well in Q2 2018 in one of the West Thrace licenses. The Karanfiltepe-7 well will target a conventional fault-bounded trap and will be drilled to approximately 1,450m. The well must be spudded prior to June 27, 2018 to maintain the license in good standing.

In all its activities, the Company remains committed to continuing its safe operations and ensuring that operational and administrative functions are conducted in the most cost-efficient way.

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

Results of Operations

	Three months ended	
	March 31, 2018	**March 31, 2017**
Petroleum and natural gas sales	**$ 3,469**	$ 3,088
Royalties	**(460)**	(399)
Production costs	**(1,049)**	(609)
Operating netback[4]	**1,960**	2,080
Other income	**365**	335
General and administrative expenses	**(1,335)**	(1,656)
Transaction costs	**(287)**	(918)
Realized foreign exchange loss	**(75)**	(1,604)
Current tax expense	**(83)**	(1,120)
Adjusted funds flow [5]	**545**	(2,883)
Non-cash expenses		
Share-based compensation	**(176)**	(96)
Accretion on decommissioning liabilities	**(521)**	(282)
Unrealized foreign exchange gain (loss)	**(140)**	650
Depletion and depreciation	**(2,023)**	(1,898)
Deferred tax recovery (expense)	**(120)**	2,508
Net loss	**$ (2,435)**	$ (2,001)

Sales Volumes

	Three months ended	
	March 31, 2018	**March 31, 2017**
Natural gas (Mcf/d)	**5,066**	4,825
Crude oil (bbl/d)	**15**	3
Total (boe/d)	**859**	807

Sales volumes in Q1 2018 increased to 859 barrels of oil equivalent per day ("boe/d") compared to 807 boe/d for the same period in 2017 due to additions from the TBNG Acquisition partially offset by natural declines causing lower gross production on both the TBNG JV and Banarli Licences.

[4] Non-GAAP measure – see note regarding non-GAAP measures on page 18.
[5] Non-GAAP measure– see note regarding non-GAAP measures on page 18.

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

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2018**	**March 31, 2017**
Natural gas – BOTAS (per Mcf)[6]	**TL 22.54**	TL 19.84
Natural gas – BOTAS (per Mcf)	**$ 7.49**	$ 7.12
Average exchange rate (TL/CAD)	**3.011**	2.785

	Three months ended	
Average realized prices	**March 31, 2018**	**March 31, 2017**
Natural gas (per Mcf)	**$ 7.37**	$ 7.06
Crude oil (per bbl)	**82.61**	72.83

Natural gas prices under sales contracts for all production in the Thrace Basin are linked to the BOTAS benchmark price in TL. Tracking of the BOTAS price, converted to US$, suggests that the price trends similar to the EU natural gas price. This is not unexpected, as the gas sources are similar for both BOTAS and the EU. Natural gas prices remain relatively strong in Turkey compared to North America, despite the recent volatility and overall decrease in the value of the TL.

Natural gas sales from the TBNG JV lands are under direct sales contracts to industrial buyers in the area and each contract is at a negotiated discount to the BOTAS benchmark price. 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.

Effective January 1, 2018 the BOTAS reference price was increased by 14%. The Company's Q1 2018 average realized natural gas price in Turkey increased by 4% to $7.37 per Mcf from $7.06 per Mcf in Q1 2017 due primarily to the increase in the BOTAS benchmark price effective January 1, 2018 and offset by the devaluation of the TL against the Canadian Dollar. The average realized natural gas price in Turkey for Q1 2018 of $7.37 per Mcf represents a 2.0% discount to the BOTAS benchmark price.

As of April 1, 2018 the BOTAS reference price was increased by 10%. This increase is more than an offset to the latest devaluation realized in the Turkish Lira against both the US and Canadian dollars. It also suggests further evidence that the BOTAS reference price is tracking EU natural gas price.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2018	**March 31, 2017**
Natural gas	**$ 3,360**	$ 3,065
Crude oil	**109**	23
Total revenues	**$ 3,469**	$ 3,088

The composition of petroleum and natural gas sales revenues for Q1 2018 was approximately 99% natural gas and 1% crude oil. Revenues in Q1 2018 increased in comparison to the same period in 2017 due to increased production from the TBNG acquisition and higher realized natural gas prices in Turkey.

[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 2017 AIF for further discussion.

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

Royalties

	Three months ended	
	March 31, 2018	**March 31, 2017**
Royalties	**$ 460**	$ 399
Percentage of revenue	**13.3%**	12.9%

Royalties in Q1 2018 increased in comparison to the same period 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	
	March 31, 2018	**March 31, 2017**
Production costs	**$ 1,049**	$ 609
$ per boe	**13.57**	8.37

Production costs for Q1 2018 increased in comparison to the same period in 2017 due primarily to Valeura increasing its ownership of the TBNG JV from 40% to 81.5% commencing in February 2017. The higher unit production costs in Q1 2018 in comparison to 2017 are reflective of the level of fixed costs included in total operating costs and lower gross production from the TBNG JV and Banarli Licenses.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2018	**March 31, 2017**
Petroleum and natural gas sales	**$ 44.87**	$ 42.49
Royalties	**(5.96)**	(5.50)
Production costs	**(13.57)**	(8.37)
Operating netback	**$ 25.34**	$ 28.62

Operating netbacks for Q1 2018 are lower in comparison to the same period in 2017 due primarily to increased production costs offset by higher realized prices as a result of the increase in the BOTAS reference price as described in the Pricing Information section.

General and Administrative Expenses

	Three months ended	
	March 31, 2018	**March 31, 2017**
General and administrative expenses	**$ 2,312**	$ 1,785
Business development	**-**	12
Total	**2,312**	1,797
Recoveries	**(977)**	(141)
Total general and administrative expenses	**$ 1,335**	$ 1,656

Total general and administrative expenses net of recoveries for Q1 2018 decreased in comparison to the same period in 2017 as a result of increased overhead recoveries from joint venture partners. Increased gross general and administrative expenses correspond to increased personnel related to the expansion of the business. The expansion is two-fold including operatorship of the shallow program on the TBNG JV lands and the deep drilling program on the BCGA which is currently in the earning phase. These operator roles require significantly increased responsibilities and, at the same time, enabled increased overhead recoveries shown above.

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

Foreign Exchange

During Q1 2018, the Company recorded a foreign exchange loss (realized and unrealized) of $0.2 million, compared to a foreign exchange loss of $1.0 million for the same period in 2017. The foreign exchange loss in Q1 2018 is due to the weakening of the Turkish Lira (TL) against the Canadian Dollar.

The functional currency for the Company's Turkish operations is the Turkish Lira. 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 petroleum and natural gas sales are conducted in Turkey and are denominated in TL. As such, the Company is exposed to any fluctuations in the Turkish Lira to Canadian Dollar (CAD) and United States Dollar (USD) exchange rates. A decrease in the value of the Turkish Lira against the Canadian or United States Dollars will result in a decrease in revenues, royalty expense and operating costs. Correspondingly, an increase in the value of the Turkish Lira against the Canadian and United States Dollars will result in an increase in revenues, royalty expense and operating costs. Changes in the value of the Turkish Lira against the Canadian and United States Dollars could also impact reserve values.

The recent negative volatility in the value of the Turkish Lira may impair the ability of the Company to effectively manage foreign exchange exposure. Continued devaluation of the Turkish Lira, without a corresponding increase in the natural gas reference price, will have a negative impact on adjusted funds flow and could affect the ability of the Company to fund its capital program in the future.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three months ended March 31, 2018:

+/- 1% change in realized TL/CAD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended March 31, 2018	$ 37	$ 5	$ 11

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in US Dollars. Material changes in the value of the US Dollar against the Turkish Lira or Canadian Dollar will impact the Company's capital costs.

Changes to the TL/USD exchange rate, which are impacted by the TL/CAD exchange rate upon conversion to the Company's Canadian Dollar presentation currency, would have had the following impact on capital expenditures for the three months ended March 31, 2018:

+/- 1% change in realized TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended March 31, 2018	$ 41

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, including its exposure to the Turkish Lira and any cost effective ways to mitigate such exposure.

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

Other Income

During Q1 2018, the Company recorded other income of $0.4 million compared to $0.3 million for the same period in 2017. Other income is comprised of processing and marketing income and interest income related to cash on hand. The increase during Q1 2018 is attributed to higher third party volumes processed, and higher working interest participation in processing revenues due to the TBNG acquisition.

Adjusted Funds Flow

Adjusted funds flow for Q1 2018 was an inflow of $0.5 million compared to an outflow of $2.9 million for the same period in 2017. The increase in adjusted funds flow in Q1 2018 was due to higher volumes, higher realized prices and lower transaction costs, partially offset by higher production costs. Adjusted funds flow in 2017 was negatively impacted by expenses related to the TBNG acquisition and Banarli Farm-in including transactions costs, income taxes and realized foreign exchange losses.

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

	Three months ended	
	March 31, 2018	**March 31, 2017**
Cash provided by (used in) operating activities	**$ (3,935)**	$ 441
Decommissioning costs incurred	**25**	3
Change in non-cash working capital	**4,455**	(3,327)
Adjusted funds flow	**$ 545**	$ (2,883)

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 Q1 2018 was $0.2 million compared to $0.1 million for the same period in 2017. The Company granted 927,500 options with an exercise price of $4.62 on March 17, 2018.

Accretion on Decommissioning Liabilities

Accretion on decommissioning liabilities for Q1 2018 was $0.5 million compared to $0.3 million for the same period in 2017. The increase is due to the TBNG acquisition and an increased percentage ownership in the TBNG JV well locations and the associated impact on decommissioning obligations.

Depletion and Depreciation

Depletion and depreciation for Q1 2018 was $2.0 million compared to $1.9 million for the same period in 2017. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q1 2018 was $26.17/boe compared to $26.13/boe for the same period in 2017.

Current Tax

Current tax for Q1 2018 was an expense of $0.1 million compared to an expense of $1.1 million for the same period in 2017. The current tax expense represents taxes due related to normal operating activities in Turkey. The expense in Q1 2017 represented a preliminary estimate of taxes incurred primarily for the Statoil funding on the sale of the West Thrace Lands. The corporate tax rate in Turkey increased from 20% to 22% effective for tax years beginning on January 1, 2018 for the years 2018, 2019 and 2020.

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

Deferred Tax

Deferred tax for Q1 2018 was an expense of $0.1 million compared to a recovery of $2.5 million for the same period in 2017. 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 realized foreign exchange gain or loss which is recorded in net earnings.

The currency translation adjustment for Q1 2018 was a loss of $0.9 million compared to a loss of $1.7 million for the same period in 2017 reflecting the fluctuation in the value of the TL compared to the Canadian Dollar in the respective periods.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
	March 31, 2018	**March 31, 2017**
Geological and geophysical	**$ 128**	$ 406
Drilling & completions	**259**	1,107
Workovers & recompletions	**386**	344
Equipping, facilities & other	**101**	75
Total exploration and development capital program	**874**	1,932
Acquisition	**-**	21,450
Dispositions	**-**	(22,315)
Total net capital	**$ 874**	$ 1,067

The Company's capital spending for Q1 2018 was $0.9 million, including $0.1 million for geological and geophysical operations, $0.3 million for drilling and completions and $0.4 million for workovers and recompletions.

During Q1 2018, the Company completed workovers on five gross wells on the TBNG JV lands and one workover on the Banarli Licenses. During the quarter, Valeura was focused on the plan and design of the deep drilling program including the approval of the work program with Statoil followed by the procurement of services. For the remainder of 2018, the focus will be on the deep drilling program as described below. The first activity for Q2 and Q3 2018 is the final completion and long term test of the Yamalik 1 well and the spud of the second commitment well under the Banarli Farm in. Statoil will fund the drilling and completion of the second farm in well. In addition, during Q2 2018, one shallow well will be drilled as a license retention well on the TBNG lands.

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

2018/2019 Planned Capital Program

Valeura's 2018 and 2019 capital program will be almost entirely focused on the drilling and testing of wells to delineate and demonstrate commerciality of the unconventional BCGA play discovered by Yamalik-1 in 2017. Funds are also allocated for the tie-in of these wells to allow for production and sales of any discovered gas. It is expected that the net proceeds of the 2018 Offering will be used as follows:

Activity or Nature of Expenditure	Approximate use of Net Proceeds	Anticipated Timing
2018		
Yamalik-1 Completion and Tie-in to Production Facilities	$3,100,000	Q2/Q3 2018
Hayrabolu-10 Workover	$2,100,000	Q4 2018
Drill and Test West Thrace #1 Deep Well	$9,500,000	Q4 2018
Facilities Capital and Tie-in for 3 Wells	$5,250,000	Q4 2018
G&G and studies on Banarli and West Thrace	$2,000,000	2018
Total 2018:	**$21,950,000**	
2019		
Drill and Test Banarli #3 Deep Well	$15,000,000	Q1 2019
Pilot Production Well	$10,800,000	2019
Facilities Capital and Tie-in for Banarli #3	$1,750,000	Q1 2019
3D Seismic Program, G&G and studies on Banarli and West Thrace	$5,500,000	2019
Total 2019:	**$33,050,000**	
Total:	**$55,000,000**	

The capital program planned for 2018 for the deep and shallow drilling is anticipated to be in the range of $19.0 million and $22.0 million. The above chart primarily outlines the deep drilling program. Valeura has targeted one shallow well to be drilled on the TBNG JV lands in Q2 2018 which is strategically important as it represents a license retention well. The net cost of this well is approximately $0.8 million.

The work program and budget for the deep program will be updated during Q2 2018 as procurement and well planning activities advance.

The Company maintains considerable flexibility in managing its capital budget for 2018 and 2019. As a result of the TBNG acquisition, the Company is now the operator of the TBNG JV, which provides a greater level of control of capital spending. The drilling and workover capital spending on the TBNG JV lands is focused on fulfilling drilling commitments and offsetting natural production declines. The Company will continue to utilize current working capital and adjusted funds flow to fund any capital spending on the TBNG JV lands. In addition to the TBNG JV lands, Valeura expects to maintain operatorship of the deep rights on the Banarli Lands and West Thrace Lands for 2018 and will tightly manage all capital requirements and commitments.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2018	**March 31, 2017**
Opening cash position	**$ 11,108**	$ 1,987
Inflow of funds		
Share issuance – net of share issuance costs	**55,402**	10,110
West Thrace Deep Rights Sale	**-**	14,868
Statoil Farm-in Proceeds	**-**	7,447
Changes in working capital and foreign exchange on cash[7]	**-**	1,009
Restricted Cash	**91**	-
Adjusted funds flow[8]	**545**	-
	56,038	33,434
Outflow of funds		
Capital expenditures[9]	**(874)**	(1,932)
Decommissioning costs incurred	**(25)**	(3)
TBNG acquisition	**-**	(21,450)
Restricted cash	**-**	(3,393)
Changes in working capital and foreign exchange on cash[7]	**(9,348)**	-
Adjusted funds flow[8]	**-**	(2,883)
	(10,247)	(29,661)
Closing cash position	**$ 56,899**	$ 5,760

Capital Funding and Resources

As at March 31, 2018, Valeura's working capital[10] balance was $58.5 million including cash of $56.9 million. Valeura's 2018 opening cash position was $11.1 million. The increase in the working capital/cash position in Q1 2018 was due to the net proceeds of $55.4 million from the equity financing (net of share issuance costs). In Q1 2018, the Company utilized this opening cash balance plus funds flow from operations to fund and an exploration and development capital program of $0.9 million.

Financial Capacity

As at March 31, 2018 the Company's working capital[11] was $58.5 million.

On March 1, 2018 the Company closed the 2018 Offering, issuing common shares for net proceeds of approximately $55.4 million, after share issue costs. Valeura intends to use the net proceeds from the 2018 Offering to fund its 2018 and 2019 capital program (outlined above) and for general corporate purposes.

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[7] 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.

[8] Non-GAAP measure – see note regarding non-GAAP measures on page 18.

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

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

Capital Management

The Company's objective 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.

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 and lower production volumes and associated revenues.

The Company's capital expenditures include expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur in 2019 if Statoil elects to complete Phase 3 under the Banarli Farm-in and thereby earns a 50% working interest in the deep rights at Banarli. At that point, Statoil may exercise its option under the Banarli Farm-in to take operatorship of the deep rights and propose a more significant drilling program. The Company has received net proceeds of $55.4 million in an equity offering as described in the Financial Capacity section above in order to meet commitments for a delineation well capital program. However, such a program could result in an even more significant capital commitment for which the Company will be required to further assess alternatives including the availability of equity and debt capital to fund the program.

Credit Facilities

The Company has a general credit facility in the amount of US$0.3 million with a Turkish bank for the purpose of obtaining letters of credit required by the Turkish government. As at March 31, 2018, the Company has issued letters of credit totaling US$0.04 million (March 31, 2017 – US$0.3 million), all of which remain outstanding. The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set as the purpose of this facility is for issuance of letters of credit only. The Company is currently in discussions to expand the letter of credit facility to an amount in excess of US$2.0 million.

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

Selected Quarterly Information

	Three months ended			
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Total daily production (boe/d)	859	1,038	1,024	934
Average wellhead price ($/boe)	$ 44.87	$ 40.03	$ 42.14	$ 44.28
Petroleum and natural gas sales	3,469	3,824	3,970	3,764
Adjusted funds flow	545	(446)	1,165	959
Per share, basic and diluted	0.01	(0.01)	0.02	0.01
Net loss	(2,435)	(946)	(4,911)	(526)
Per share, basic and diluted	$ (0.03)	$ (0.01)	$ (0.07)	$ (0.01)
	Three months ended			
	March 31, 2017	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**
Total daily production (boe/d)	807	795	680	933
Average wellhead price ($/boe)	$ 42.49	$ 47.97	$ 56.10	$ 56.62
Petroleum and natural gas sales	3,088	3,508	3,510	4,809
Adjusted funds flow	(2,883)	915	1,066	2,098
Per share, basic and diluted	(0.04)	0.02	0.02	0.04
Net loss	(2,001)	(3,189)	(1,263)	(642)
Per share, basic and diluted	$ (0.03)	$ (0.06)	$ (0.02)	$ (0.01)

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

- Revenue is directly impacted by the Company's ability to offset natural production declines with production additions from an on-going capital expenditure program and acquisitions.
- Valeura has benefited from relatively high natural gas prices and netbacks in Turkey compared to North America, although the weakening of the TL since 2016 reduced wellhead price realizations compared to 2016.
- With its revenues in TL, capital expenditures primarily in United States Dollars and reporting currency in Canadian Dollars, Valeura has a high level of foreign exchange and currency translation exposure.

Commitments and Contractual Obligations

On August 1, 2016 the Company renegotiated its existing office sublease that was originally signed on June 15, 2015. The term of this sublease runs through January 30, 2019. The remaining amount committed under this renegotiated sublease is approximately $0.3 million including an estimate for operating costs. At March 31, 2018 the remaining commitment of $0.2 million will be discharged in the following years: 2018 – $0.2 million and 2019 – $nominal.

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, 2017 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Changes in Significant Accounting Policies

IFRS 15 Revenue from Contracts with Customers

Valeura adopted the new standard on January 1, 2018 on a retrospective basis. The standard requires enhanced disclosure of revenue from contracts with customers as detailed in Note 8 of the interim financial statements, including categories that depict the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Valeura management reviewed its revenue streams and major contracts with customers and concluded that there were no material impacts on the Company's revenues or cash flows for the period as a result of adopting the new standard.

The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is to be recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and timing of the revenue recognized. The new standard applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts.

Valeura's petroleum and natural gas revenues from the sale of natural gas and crude oil are based on the consideration specified in the contracts with customers. For natural gas, pricing is linked to BOTAS benchmark pricing, while crude oil pricing is linked to Brent benchmark pricing. Valeura recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer and collection is reasonably assured.

Valeura evaluates its arrangements with third parties and partners to determine if Valeura is acting as the principal or as the agent. Valeura is considered the principal in a transaction when it has primary responsibility for the transaction. If Valeura acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any realized by Valeura from the transaction.

IFRS 9 Financial Instruments

IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting, which is more in line with risk management activities. IFRS 9 has been adopted on a retrospective basis by Valeura on January 1, 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

Under IFRS 9, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risks is recorded through other comprehensive income or loss rather than net income or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions: a) the asset is held with a business model whose objective is to hold assets to collect contractual cash flows; and b) the contractual terms of the financial assets give rise to cash flows on specified dates that are solely payments of principal and interest on principal amounts outstanding.

Financial assets that meet criteria (b) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at FVOCI. All other financial assets and liabilities are subsequently measure at FVTPL. There was no change to the measurement categories of financial liabilities.

Accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities continue to be measured at amortized cost and are now classified as "amortized cost".

Recent Accounting Standards and Interpretations

The International Accounting Standards Board ("IASB") released the following new standards:

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will be applied by Valeura on January 1, 2019 and the Company is currently evaluating the impact of the standard on its financial statements.

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, summarized 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 January 1, 2018 and ending on March 31, 2018 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 March 31, 2018 other than those previously disclosed under the Commitments and Contractual Obligations section.

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 which are inherently risky.

All risk factors have not materially changed from December 31, 2017. The reader is referred to Valeura's December 31, 2017 audited consolidated financial statements, MD&A and 2017 AIF for a description of these risks.

Special Note Regarding 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), 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 standardized 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.

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 2018 work program and budget; the timeliness and costs for the deep drilling program in 2018 and 2019; the identification and finalization of locations for the second and third wells of the deep program; potential to tie-in and conduct a long term production test and achieve natural gas sales from the Yamalik-1 well; the timing of signing a rig contract for the deep well delineation program; the timing of the commencement of the delineation drilling campaign; 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 commitment to safety and optimizing operational and administrative functions; the Company's business strategy and outlook, operational plans, expected capital expenditures and target exit sales rate; and the availability of operating cash flow and the ability to finance development from existing cash 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, and in particular the period of political change and uncertainty in Turkey in 2016 and 2017; continued safety of operations and ability to proceed in a timely manner; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future seismic and drilling activity on the expected timelines; the prospectivity of the TBNG JV lands and Banarli 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 programs 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, fracing and other specialized 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 significant 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; uncertainty regarding the contemplated timelines for the Yamalik-1 tie-in program; completion of the Banarli Farm-in program and the basin-centered gas delineation drilling program; the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues, terrorist attacks, insurgencies or civil unrest in Turkey; political stability in Turkey, including potential changes in Turkey's constitution, political leaders or parties or a resurgence of a coup or other political turmoil; the uncertainty regarding government and other approvals; counterparty risk; potential changes in laws and regulations; risks associated with weather delays and natural disasters; the risk associated with international activity; and, the uncertainty regarding the ability to fulfill the drilling commitments on the West Thrace lands. See Valeura's 2017 AIF filed on SEDAR at www.sedar.com 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.