



**Condensed Interim Consolidated Financial Statements (unaudited)
as at March 31, 2018 and for the three months ended March 31, 2018 and 2017**

Condensed Interim Consolidated Statements of Financial Position

(thousands of Canadian Dollars, unaudited)	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash	\$ 56,899	\$ 11,108
Accounts receivable	5,708	4,052
Prepaid expenses and deposits	1,473	1,381
Inventory	246	251
	64,326	16,792
License Deposit <i>(note 3)</i>	161	164
Restricted Cash <i>(note 3)</i>	3,081	3,173
Exploration and evaluation assets <i>(note 4)</i>	7,774	7,642
Property, plant and equipment <i>(note 5)</i>	56,085	62,101
	\$ 131,427	\$ 89,872
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,802	\$ 13,371
Decommissioning obligations <i>(note 6)</i>	15,896	19,206
Deferred taxes	2,541	2,470
Shareholders' Equity		
Share capital <i>(note 7)</i>	202,096	146,694
Contributed surplus	20,033	19,857
Accumulated other comprehensive loss	(32,963)	(32,183)
Deficit	(81,978)	(79,543)
	107,188	54,825
	\$ 131,427	\$ 89,872

See accompanying notes to the condensed interim consolidated financial statements

See Commitment *(note 12)*

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2018 and 2017**

(thousands of Canadian Dollars, except share and per share amounts, unaudited)	March 31, 2018	March 31, 2017
Revenue		
Petroleum and natural gas sales <i>(note 8)</i>	\$ 3,469	\$ 3,088
Royalties <i>(note 8)</i>	(460)	(399)
Other income <i>(note 8)</i>	365	335
	3,374	3,024
Expenses		
Production	1,049	609
General and administrative	1,335	1,656
Transaction Costs	287	918
Accretion on decommissioning liabilities <i>(note 6)</i>	521	282
Foreign exchange loss	215	954
Share-based compensation	176	96
Depletion and depreciation <i>(note 5)</i>	2,023	1,898
	5,606	6,413
Loss for the period before income taxes	(2,232)	(3,389)
Income taxes		
Current tax expense	83	1,120
Deferred tax expense (recovery)	120	(2,508)
Net loss	(2,435)	(2,001)
Other comprehensive loss		
Currency translation adjustments	(780)	(1,678)
Comprehensive loss	(3,215)	(3,679)
Net loss per share		
Basic and diluted <i>(note 7)</i>	\$ (0.03)	\$ (0.03)
Weighted average number of shares outstanding (thousands)	76,657	64,208

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2018 and 2017

(thousands of Canadian Dollars, unaudited)	March 31, 2018	March 31, 2017
Cash was provided by (used in):		
Operating activities:		
Net loss for the period	\$ (2,435)	\$ (2,001)
Depletion and depreciation	2,023	1,898
Share-based compensation	176	96
Accretion on decommissioning liabilities (note 6)	521	282
Unrealized foreign exchange loss (gain)	140	(650)
Deferred tax expense (recovery)	120	(2,508)
Decommissioning costs incurred	(25)	(3)
Change in non-cash working capital (note 10)	(4,455)	3,327
Cash provided by (used in) operating activities	(3,935)	441
Financing activities:		
Share Issuance	60,004	10,972
Share Issuance Costs	(4,602)	(862)
Cash provided by financing activities	55,402	10,110
Investing activities:		
TBNG Acquisition cash purchase price	-	(21,450)
West Thrace Deep Rights Sale	-	14,868
Statoil Farm-in Proceeds	-	7,447
Exploration and evaluation expenditures (note 4)	(293)	(341)
Property and equipment expenditures (note 5)	(581)	(1,591)
Change in Restricted Cash	91	(3,393)
Change in non-cash working capital (note 10)	(4,972)	(3,535)
Cash used in investing activities	(5,755)	(7,995)
Foreign exchange gain on cash held in foreign currencies	79	1,217
Net change in cash	45,791	3,773
Cash, beginning of period	11,108	1,987
Cash, end of period	\$ 56,899	\$ 5,760



**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2018 and 2017**

(thousands of Canadian Dollars and thousands of shares or warrants, unaudited)	Number of Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2018	73,148	\$ 146,694	\$ 19,857	\$ (79,543)	\$ (32,183)	\$ 54,825
Net loss for the period	-	-	-	(2,435)	-	(2,435)
Shares issued	10,527	60,004	-	-	-	60,004
Share Issuance Costs	-	(4,602)	-	-	-	(4,602)
Currency translation adjustments	-	-	-	-	(780)	(780)
Share-based compensation	-	-	176	-	-	176
March 31, 2018	83,675	\$ 202,096	\$ 20,033	\$ (81,978)	\$ (32,963)	\$ 107,188

(thousands of Canadian Dollars and thousands of shares or warrants, unaudited)	Number of Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2017	58,519	\$ 136,586	\$ 19,343	\$ (71,159)	\$ (26,164)	\$ 58,606
Net loss for the period	-	-	-	(2,001)	-	(2,001)
Shares issued	14,629	10,972	-	-	-	10,972
Share Issuance Costs	-	(862)	-	-	-	(862)
Currency translation adjustments	-	-	-	-	(1,678)	(1,678)
Share-based compensation	-	-	108	-	-	108
March 31, 2017	73,148	\$ 146,696	\$ 19,451	\$ (73,160)	\$ (27,842)	\$ 65,145

See accompanying notes to the condensed interim consolidated financial statements

1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands, British Virgin Islands and Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. Valeura's head office address is 1200, 202 – 6th Avenue SW, Calgary, AB.

2. Basis of Preparation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's audited consolidated financial statements for the year ended December 31, 2017, with the exception as noted below of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted in the interim statements, in addition to the adoption of IFRS 15 – Revenue from contracts with customers and IFRS 9 – Financial Instruments. The attached unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2017.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. The use of estimates and judgements is also consistent with the December 31, 2017 financial statements.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2018.

(b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2017 audited consolidated financial statements.

The Company's unaudited condensed interim consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in thousands of Canadian Dollars, unless otherwise stated.

(c) Functional and presentation currency

The unaudited condensed interim consolidated financial statements are presented in Canadian Dollars which is Valeura's reporting currency. Valeura's foreign subsidiaries transact in currencies other than the Canadian Dollar and have a Turkish Lira functional currency. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in Other Comprehensive

Income or loss (“OCI”) and are held within Accumulated Other Comprehensive Income or loss (“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.

(d) Changes in Significant Accounting Policies**(i) 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, 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.

(ii) 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”.

Valeura does not currently have financial instrument contracts to which it applies hedge accounting.

(e) 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.

(f) Turkish Operational Update

Turkey has gone through a period in 2016 and 2017 of political change and uncertainty. 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 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. 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 these condensed interim consolidated financial statements were approved by the Board of Directors. The situation in Turkey remains uncertain and significant changes could occur which could materially impact the assumptions and estimates made in these condensed interim consolidated financial statements. Changes in assumptions are recognized in the financial statements prospectively.

3. Restricted Cash and Licence Deposits

The Company has restricted cash in the amount of \$3.1 million (December 31, 2017 - \$3.2 million) that is securing licence deposits with the General Directorate of Petroleum Affairs of the Republic of Turkey (“GDPA”), and a further \$0.2 million (December 31, 2017 - \$0.2 million) on deposit with the GDPA. This restricted cash and deposit is security for decommissioning or abandonment obligations and ongoing work programs on the Company’s Turkish licences. These deposits and restricted cash equal the amount to satisfy the underlying commitments with the GDPA and there are no other outstanding commitments. As the expected abandonment date and work programs for these assets is more than one year from March 31, 2018, this restricted cash and deposit have been classified as non-current in the Company’s financial statements.

4. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2017	\$ 7,642
Additions	293
Capitalized share-based compensation	2
Effects of movements in exchange rates	(163)
Balance, March 31, 2018	\$ 7,774

Exploration and evaluation (“E&E”) assets consist of the Company’s exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company’s share of costs incurred on E&E assets during the period.

In circumstances where the Company has entered into farm-in arrangements whereby the farm-in partner (“partner”) will earn a working interest on certain properties through payment of a pre-determined portion of the costs of exploration or development activities, Valeura recognizes a disposal of the partner’s working interest once the commitment has been met and the difference between the proceeds received and the carrying amount of the asset are recognized as a gain or loss in the Consolidated Statements of Loss and Comprehensive Loss for Property, Plant and Equipment assets and as a reduction of Exploration and Evaluation Assets for instances where the farm in is on undeveloped land. Under this IFRS accounting policy, the entire proceeds of the Banarli Farm-in were accounted for as a reduction of Exploration and Evaluation Assets.

5. Property, Plant and Equipment

Cost	Total
Balance, December 31, 2017	\$ 106,777
Additions	581
Change in decommissioning liabilities (<i>note 6</i>)	(3,422)
Effects of movements in exchange rates	(2,062)
Balance, March 31, 2018	\$ 101,874

Accumulated depletion and depreciation	Total
Balance, December 31, 2017	\$ 44,676
Depletion and depreciation expense	2,023
Effects of movements in exchange rates	(910)
Balance, March 31, 2018	\$ 45,789

Net book value	Total
Balance, December 31, 2017	\$ 62,101
Balance, March 31, 2018	\$ 56,085

(a) Impairment assessment

IFRS requires an impairment test to assess the recoverable value of PP&E within each Cash Generating Unit (“CGU” or CGUs”) upon initial adoption and, subsequently whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell.

As at March 31, 2018, the Company conducted an assessment of impairment triggers for the Company’s CGUs. The triggers assessed included market capitalization compared to net assets, any changes to year-end commodity price

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Three months ended March 31, 2018 and 2017

forecasts, and the Company's drilling success during the quarter. After assessing these impairment triggers the Company concluded that there were no indicators of impairment on its PP&E assets.

(b) Contingencies

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

(c) Depletion - future development costs

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of \$141.3 million (December 31, 2017 – \$143.8 million) associated with development of the Company's proved plus probable reserves.

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

6. Decommissioning Obligations

	March 31, 2018
Decommissioning obligations, beginning of year	\$ 19,206
Obligations incurred	-
Obligations settled	(25)
Change in estimates	(3,422)
Accretion of decommissioning obligations	521
Effects of movements in exchange rates	(384)
Balance, March 31, 2018	\$ 15,896

The change in estimates of \$3.4 million is a result of a change in the inflation rate to 10.23% at March 31, 2018 (11.9% at December 31, 2017) and a change in the foreign exchange rate from USD to Turkish Lira to 3.95 (3.77 at December 31, 2017).

7. Share Capital

On February 8, 2018, the Company entered into an agreement with a syndicate of underwriters pursuant to which the Company agreed to sell and the underwriters agreed to purchase on a bought deal basis 10,527,000 common shares of the Company at a price of \$5.70 per common share, for total gross proceeds of approximately \$60.0 million (the "Offering"). The Offering closed on March 1, 2018. Net proceeds were approximately \$55.4 million after underwriters' fees of approximately \$3.6 million and other expenses of \$1.0 million.

(a) Issued

	Number of Shares	Amount
Common shares		
Balance, December 31, 2017	73,148,321	\$ 146,694
Shares issued pursuant to equity financing, net of share issue costs	10,527,000	55,402
Balance, March 31, 2018	83,675,321	\$ 202,096

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(b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended March 31, 2018 is 76,657,321 (March 31, 2017 – 64,208,376; December 31, 2017 – 70,943,951). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

(c) Stock options

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years.

The number and weighted average exercise prices of share options are as follows:

	Number of Options	Weighted average exercise price
Balance outstanding, December 31, 2017	6,370,500	\$ 0.73
Granted	927,500	4.62
Balance outstanding, March 31, 2018	7,298,000	1.22
Exercisable at March 31, 2018	4,747,151	\$ 0.72

The following table summarizes information about the stock options outstanding and exercisable at March 31, 2018:

Exercise prices	Outstanding at March 31, 2018	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2018	Weighted average exercise price
\$0.57 - \$0.66	2,770,000	3.54	\$ 0.60	2,770,000	\$ 0.60
\$0.67 - \$0.78	2,250,000	5.67	0.74	776,651	0.74
\$0.79 - \$1.00	1,350,500	2.43	0.98	1,200,500	1.00
\$1.01 - \$4.62	927,500	6.98	4.62	-	-
	7,298,000	4.43	\$ 1.22	4,747,151	\$ 0.72

The fair value, at the grant date during the year, of the stock options issued was estimated using the Black-Scholes model with the following weighted average inputs:

Assumptions	March 31, 2018	December 31, 2017
Risk free interest rate (%)	2.0	0.7
Expected life (years)	4.5	4.5
Expected volatility (%)	83.7	80.7
Forfeiture rate (%)	3.4	1.6
Weighted average fair value per option	\$ 2.96	\$ 0.46

8. Revenue

The Company sells its production pursuant to fixed price contracts in the country of Turkey. Natural gas prices under sales contracts for all of the Company's production 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.

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

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

The Company produces a small amount of crude oil that is sold on a spot basis as volumes warrant. Oil is delivered by truck to customers and revenue is recognized in the period in which the delivery occurs.

In addition to selling natural gas that the Company produces, the Company sells natural gas that it purchases from other producers in the area. This purchased natural gas is sold to the same customers, using the same contracts, through the same distribution network as natural gas the Company produces. The Company purchases natural gas from other producers under contracts that are typically one year or less in length at a discount of approximately 20% to the BOTAS price. These contracts require the Company to deliver the purchased natural gas to customers, the Company does not have the right, nor the ability, to store the purchased natural gas. Since the Company does not have the ability to influence the decision making process for the purchased natural gas volumes or the discretion to set prices, does not experience any inventory risk, does not perform any processing of the product and does not remit royalties to the Turkish government for the product, it considers itself an agent in these transactions. Revenue for this purchased gas is included net of purchase cost in Other income.

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

	March 31, 2018
Natural Gas	\$ 3,360
Crude Oil	109
Petroleum and natural gas sales	\$ 3,469

	March 31, 2018
Royalties – Natural Gas	\$ 420
Crude Oil	5
Gross overriding royalty	35
Royalties	\$ 460

	March 31, 2018
Third party natural gas sales net of costs	\$ 215
Interest and other revenue	150
Other income	\$ 365

9. 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 (December 31, 2017 – US\$0.04 million). 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.

10. Supplemental Cash Flow Information

	March 31, 2018	March 31, 2017
Change in non-cash working capital:		
Accounts receivable	\$ (1,656)	\$ (4,279)
Prepaid expenses and deposits	(92)	(1,491)
Inventory	5	-
Deposits (non-current)	(3)	742
Accounts payable and accrued liabilities	(7,569)	5,777
TBNG Acquisition	-	(2,441)
Movements in exchange rates	(112)	1,484
	(9,427)	(208)

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

Operating	(4,455)	3,327
Investing	(4,972)	(3,535)
	\$ (9,427)	\$ (208)

11. Financial Risk Management

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

- Credit risk
- Market risk
- Liquidity risk

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

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

(a) Credit risk

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

	March 31, 2018	December 31, 2017
Joint venture receivable from partners	\$ 1,550	\$ 195
Revenue receivable from customers	2,818	2,828
VAT receivable	1,340	1,029
Accounts receivable	\$ 5,708	\$ 4,052

Trade and other receivables:

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures.

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can cash call for major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Foreign currency exchange rate risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's petroleum and natural gas sales are conducted in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira (TL) 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.

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

	Petroleum and natural gas revenues	Royalties	Production costs
+/- 1 percent change in realized TL/CAD exchange rate			
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:

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

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it has no debt.

Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian Dollar and Turkish Lira, the Canadian Dollar and United States Dollar, global economic events and Turkish government policies.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash which is used to finance all operating and capital expenditures.

Capital management:

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available include working capital and funds flow from operations.

The Company's capital expenditure includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not currently subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur in 2019, upon drilling & completion success at Yamalik 1, if Statoil elects to complete Phase 3 under the Banarli Farm-in and thereby earns a 50 percent 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 including a more extensive pilot project, for which the Company would have to contribute its 50 percent participating interest. Such a program could result in capital commitment more significant than the program disclosed in the Company's recent short term prospectus. If this were the case, the Company will be required to assess alternatives including the availability of equity and debt capital to fund the program.

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 utilized 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 annualized funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

12. Commitment

On August 1, 2016 the Company renegotiated its existing sublease that was originally signed on June 15, 2015. The term of this sublease runs through January 30, 2019. The Company has the option to terminate the sublease agreement after 18 months. The remaining amount committed under this renegotiated sublease is approximately \$0.2 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, 2019 – \$nominal.