

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2018 and 2017

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

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The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of November 12, 2018 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended September 30, 2018 and 2017. Additional information relating to Valeura is available under Valeura's profile on [www.sedar.com](http://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.

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**Highlights and Selected Financial Information**

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Financial</b>				
Petroleum and natural gas sales	\$ 2,401	\$ 3,970	\$ 8,819	\$ 10,822
Net loss	(2,647)	(4,911)	(6,846)	(7,438)
Per share, basic and diluted	(0.03)	(0.07)	(0.08)	(0.11)
Adjusted funds flow (used) <sup>1</sup>	(430)	1,165	576	(759)
Per share, basic and diluted	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.01)
<b>Production volumes</b>				
Natural gas (Mcf/d)	3,931	6,077	4,448	5,489
Crude oil (bbl/d)	-	11	8	8
Total (boe/d)	655	1,024	749	923
<b>Sales prices</b>				
Natural gas (per Mcf)	\$ 6.64	\$ 6.98	\$ 7.11	\$ 7.13
Crude oil (per bbl)	-	65.16	87.59	67.49
Total (per boe)	39.83	42.14	43.12	42.96
Exploration and development capital	2,739	\$ 4,992	4,741	\$ 10,935
Acquisitions	-	-	-	21,450
Dispositions	-	-	-	(26,288)
Working capital <sup>2</sup>			56,337	5,458
Cash			\$ 56,522	2,968
Weighted average shares outstanding				
Basic and diluted (thousands) <sup>3</sup>	86,137	73,148	83,299	70,201

**Outstanding Share Data**

	September 30, 2018
Common shares	86,136,988
Stock options	4,694,667
Fully Diluted	90,831,655

<sup>1</sup> Non-GAAP measure – see note regarding non-GAAP measures on page 19.

<sup>2</sup> Working capital is current assets less current liabilities.

<sup>3</sup> The weighted average number of common shares outstanding is not increased for outstanding stock options when the effect is anti-dilutive.

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### 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 explore and appraise the unconventional basin-centered gas accumulation ("BCGA") play. Additionally, the Company has secured Equinor (name changed from Statoil in May 2018) as a large, well-respected partner which provides further technical and financial capacity to explore and appraise the deep, unconventional potential of the lands.

As at September 30, 2018, the Company held an interest in 20 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.46 million gross acres (0.37 million net acres of shallow rights and 0.26 million net acres of deep rights). 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 three production leases and one exploration license, 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 licences (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 Licences, 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 Licences. This well successfully tested the BCGA thesis concept at this location and is currently on long-term flow testing.

The Company is focussed on growing its established business in Turkey, particularly its natural gas operations in the Thrace Basin which yields very high natural gas prices relative to North America. As a result of the success of the Yamalik-1 gas-condensate discovery, the primary focus of Valeura's business has transitioned to the delineation and commercial demonstration of the multi-TCF 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). 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.

In Q3 2018 the Company performed some abandonment and reclamation activities on a number of older well sites which are no longer producing. In Q2 2018 the Company drilled the Karanfiltepe-7 exploration well, which was a commitment well in its West Thrace Lands. The well was a gas discovery which was completed and brought on production in July 2018.

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### **BCGA Play**

Valeura completed a number of transactions in 2016 and 2017 including the Banarli Farm-in, under which Equinor was given the option to acquire a 50% interest in the deep formations on the West Thrace Lands and the Banarli Licences. The Equinor investment to earn this 50% interest comprised a purchase cost of US\$15 million, back costs of US\$6 million and a work program carry of Valeura on two deep wells and new 3D seismic. The minimum gross cost of the work program carry was US\$30 million.

The first well, Yamalik-1, has been drilled and tested and the 3D seismic data has been acquired, processed and interpreted. Yamalik-1 was fraced with short term testing in Q4 2017. During Q3 2018, the well was completed, tested and tied in to Valeura's production facilities. Production began in Q4 2018.

Additionally in Q3 2018, Valeura was focussed on work planning, well design, and procuring materials and services required for a planned three well appraisal drilling campaign. Site preparation was completed and rig up commenced for the first appraisal well, Inanli-1. The well was spudded on October 8, 2018 and is currently drilling. The Inanli-1 well will be followed by Devepinar-1 located in the West Thrace Lands. The third well location will be decided in Q1 2019, but Valeura has received government permits for seven potential sites.

Valeura is operator of the deep exploration program in both Banarli and the West Thrace Lands during the earning phase of the Banarli Farm-in. Once Equinor has fully earned its 50% interest in Banarli, Equinor has the option to request operatorship of the deep program. Equinor will complete its earning obligation by drilling and testing the Inanli-1 well. On completing the drilling and testing of Inanli-1, it is expected that Equinor's expenditures for its 50% working interest will be close to US\$100 million.

### **Political and Regulatory Environment**

Turkey has gone through a period of political change and uncertainty from 2016 to 2018. However, with the successful passing of the referendum on constitutional change, and the successful election in mid-2018, the incumbent, President Erdogan remains in office. During this period of political uncertainty, the Company's ability to conduct drilling and production operations in the Thrace Basin, and to complete several commercial transactions, has not been adversely affected. 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 Turkish Lira ("TL") has continued to weaken and this accelerated in Q3 2018 with a large sharp drop in the value of the TL. While the magnitude of the drop in the value of the TL was significant, as the government has continued to adjust the reference natural gas sales price upward, offsetting these currency effects on Valeura's revenue. The TL started a modest recovery in late Q3 2018 and has continued to strengthen subsequent to the end of the quarter.

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 on information available up to the date of this MD&A.

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### 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.

In Q3 2019 the Company commenced completion and long-term testing operations on the Yamalik-1 well. The well is currently producing gas and condensate which is being sold via Valeura's infrastructure. The forward plan is to continue to produce the well to understand the flow potential of the intervals that have been fraced and the composition of gas and fluids that are being recovered. At the time of this report the well was producing gas, condensate and water and the estimate of load water recovery is 80%. Should the production of water continue after full recovery of the load water, then it will be important to determine which zone(s) are contributing the water so that these formations can be managed in future appraisal vertical wells and avoided in any potential horizontal wells. The Company is exploring options to perform production logging or similar zone-specific analysis to determine the fluid composition from each of the four intervals stimulated in the wellbore.

Valeura has been reviewing the Yamalik-1 fracing, completion and testing operations with a team from Equinor in addition to contractors and external consultants to capture learnings and to help design future fracing and testing programs. While the Yamalik-1 testing met its primary objective of demonstrating that gas and condensate will flow post fracing from select zones, the program was modest in both frac size and number of fracs.

The first well in the appraisal drilling program, Inanli-1, commenced drilling on October 8, 2018 and is currently on budget and has been drilled safely with no incidents or accidents. An extensive data acquisition program is planned for the objective section of the well, including more than 300m of core. Drilling results from the well are expected in late December 2018. With success, Inanli-1 will be fraced and flow tested in Q1 2019. Equinor will fund the drilling and testing of Inanli-1 which will fulfill its earning obligations under the Banarli farm-in agreement.

After completing Inanli-1, the rig will be moved directly to the Devepinar-1 location on the West Thrace Lands and is expected to spud in early Q1 2019 with results available around the end of Q1 2019. Devepinar-1 is a large, approximately 20km, step out from the Yamalik-1 and Inanli-1 sites, but is located between two historic, deep wells which both encountered high pressure gas at depth. The primary objective of Devepinar-1 is to demonstrate that the BCGA play is pervasive across to the west of the basin. All permits are in place for the site and construction will occur in Q4 2018. The location for the third well will be decided in Q1 2019 and will be dependent on the results from ongoing drilling and testing operations. Seven potential locations have already been approved by the government.

Valeura remains very well positioned to finance its ongoing BCGA appraisal and all corporate activities through to 2020. The Company's working capital position is more than adequate to fund its working interest share of the two appraisal wells post Inanli-1 and all of the expected fracing and testing. 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.

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**Results of Operations**

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Petroleum and natural gas sales	\$ 2,401	\$ 3,970	\$ 8,819	\$ 10,822
Royalties	(323)	(530)	(1,179)	(1,456)
Production costs	(654)	(1,306)	(2,748)	(3,249)
Operating netback <sup>4</sup>	1,424	2,134	4,892	6,117
Other income	571	338	1,432	1,049
General and administrative expenses	(558)	(909)	(3,299)	(3,905)
Transaction costs	-	(194)	(287)	(1,160)
Realized foreign exchange loss	(1,036)	(323)	(1,133)	(2,114)
Current tax recovery (expense)	(831)	119	(1,029)	(746)
Adjusted funds flow (used) <sup>5</sup>	(430)	1,165	576	(759)
<b>Non-cash expenses</b>				
Share-based compensation	(421)	(138)	(971)	(330)
Accretion on decommissioning liabilities	(545)	(487)	(1,470)	(1,292)
Unrealized foreign exchange loss	(278)	(813)	(131)	(242)
Depletion and depreciation	(1,507)	(2,352)	(5,373)	(6,515)
Exploration and evaluation expense	-	(664)	-	(664)
Deferred tax recovery (expense)	534	(1,622)	883	2,364
Net loss	\$ (2,647)	\$ (4,911)	\$ (6,486)	\$ (7,438)

**Sales Volumes**

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Natural gas (Mcf/d)	3,931	6,077	4,448	5,489
Crude oil (bbl/d)	-	11	8	8
Total (boe/d)	655	1,024	749	923

Sales volumes for the three and nine months ended September 30, 2018 were 655 boe/d and 749 boe/d, respectively, compared to 1,024 boe/d and 923 boe/d for the same periods in 2017. Sales volumes decreased due to natural declines causing lower gross production on both the TBNG JV and Banarli Licences. While the Company continued to produce oil in Q3 2018, no oil sales were recorded as the oil was stored prior to sale. Subsequent to the quarter, the oil was transported to the refinery and sold. Yamalik-1 was tested in Q3 2018, and production from Yamalik-1 commenced in Q4 2018.

<sup>4</sup> Non-GAAP measure – see note regarding non-GAAP measures on page 19.

<sup>5</sup> Non-GAAP measure – see note regarding non-GAAP measures on page 19.

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### Pricing Information

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Average reference prices				
Natural gas – BOTAS (per Mcf) <sup>6</sup>	TL 28.35	TL 19.84	TL 25.20	TL 19.84
Natural gas – BOTAS (per Mcf)	\$ 6.65	\$ 7.10	\$ 7.26	\$ 7.23
Average exchange rate (TL/CAD)	4.262	2.794	3.471	2.745

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Average realized prices				
Natural gas (per Mcf)	\$ 6.64	\$ 6.98	\$ 7.11	\$ 7.13
Crude oil (per bbl)	\$ -	\$ 65.16	\$ 87.59	\$ 67.49

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 and power generation companies in the area and each contract is at a negotiated discount or premium 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.

The government has continued to increase the BOTAS reference price thereby offsetting the decline in the value of the TL and the increase in regional gas prices. Effective January 1, 2018, April 1, 2018, August 1, 2018 and September 1, 2018 the price was increased by 14%, 10%, 14% and 14% respectively. However, the Company's Q3 2018 average realized natural gas price in Turkey decreased slightly to \$6.64 per Mcf from \$6.98 per Mcf in Q3 2017 due to very sharp devaluation of the TL against the Canadian Dollar which was effectively offset by the price increase on October 1, 2018 described below.

In the nine months ended September 30, 2018 the average realized natural gas price in Turkey of \$7.11 per Mcf represents a 2.0% discount to the BOTAS benchmark price. The Company has reduced the discount on its natural gas sales contracts from prior year levels of 3% to 5% since taking control of the gas marketing activities for the Thrace Basin lands. In Q3 2018, the average realized price approximated the reference price.

On October 1, 2018 the government announced a further 18.5% increase in the BOTAS reference price. This increase offsets recent losses in the value of the TL. With this latest price increase, the Company expects to realize natural gas prices for Q4 2018 in excess of \$8.00 per Mcf.

<sup>6</sup> 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.

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### Petroleum and Natural Gas Sales Revenues

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Natural gas	\$ 2,401	\$ 3,902	\$ 8,633	\$ 10,677
Crude oil	-	68	186	145
Total revenues	\$ 2,401	\$ 3,970	\$ 8,819	\$ 10,822

The composition of petroleum and natural gas sales revenues for the nine months ended September 30, 2018 was approximately 98 percent natural gas and two percent crude oil. Revenues for the three and nine months ended September 30, 2018 decreased in comparison to the same periods in 2017 due primarily to lower production volumes.

### Royalties

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Royalties	\$ 323	\$ 530	\$ 1,179	\$ 1,456
Percentage of revenue	13.5%	13.3%	13.4%	13.5%

Royalties for the three and nine months ended September 30, 2018 decreased in comparison to the same periods in 2017 as a result of lower 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 one percent.

### Production Costs

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Production costs	\$ 654	\$ 1,306	\$ 2,748	\$ 3,249
\$ per boe	10.84	13.86	13.44	12.90

Production costs for the three and nine month ended September 30, 2018 decreased in comparison to the same period in 2017 due to improved efficiencies in 2018 compared to higher costs in 2017 associated with integrating the TBNG Acquisition. Although production was lower, the Company was still able to achieve a significant reduction in unit production costs for the three months ended September 30, 2018.

### Operating Netbacks (per boe)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Petroleum and natural gas sales	\$ 39.83	\$ 42.14	\$ 43.12	\$ 42.96
Royalties	(5.36)	(5.62)	(5.77)	(5.78)
Production costs	(10.84)	(13.86)	(13.44)	(12.90)
Operating netback	\$ 23.63	\$ 22.66	\$ 23.91	\$ 24.28

Operating netbacks in Q3 2018 increased in comparison to the same period in 2017 due primarily to lower production costs partially offset by the decrease in realized prices. Operating netbacks for the nine months ended September 30, 2018 decreased slightly in comparison to the same period in 2017 due primarily to higher per unit production costs. Readers are directed to the note regarding non-GAAP measures below.



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### General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
General and administrative expenses	\$ 1,789	\$ 1,721	\$ 6,092	\$ 5,356
Business development	-	8	-	31
Total	1,789	1,729	6,092	5,387
Recoveries and capitalized general administrative expenses	(1,231)	(820)	(2,793)	(1,482)
Total general and administrative expenses	\$ 558	\$ 909	\$ 3,299	\$ 3,905

Total general and administrative expenses before recoveries for 2018 increased in comparison to the same periods in 2017 as a result of 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 and testing program on the BCGA. These operator roles require significantly increased responsibilities and manpower.

Net general and administration costs to Valeura are significantly lower due to increased overhead recoveries.

### Foreign Exchange

Foreign exchange (realized and unrealized) for the three and nine months ended September 30, 2018 was a loss of \$1.3 million and \$1.3 million, respectively, compared to a loss of \$1.1 million and \$2.4 million for the same periods in 2017.

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

The Company's 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 TL to Canadian Dollar (CAD) and United States Dollar (USD) exchange rates. A decrease in the value of the TL 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 TL 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 TL against the Canadian and United States Dollars could also impact reserve values.

The recent negative volatility in the value of the TL may impair the ability of the Company to effectively manage foreign exchange exposure. Continued devaluation of the TL, 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. Historically, any devaluation in the TL has been followed by a legislated increase in the posted BOTAS reference price for natural gas.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three and nine months ended September 30, 2018:

	Petroleum and natural gas revenues	Royalties	Production costs
+/- 1% change in realized TL/CAD exchange rate			
Three months ended September 30, 2018	\$ 26	\$ 3	\$ 7
Nine months ended September 30, 2018	\$ 87	\$ 12	\$ 28

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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 TL 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 and nine months ended September 30, 2018:

	Capital expenditures
+/- 1% change in realized TL/USD exchange rate, upon conversion to presentation currency	
Three months ended September 30, 2018	\$ 105
Nine months ended September 30, 2018	\$ 117

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 TL and any cost effective ways to mitigate such exposure.

### Other Income

During the three and nine months ended September 30, 2018, the Company recorded other income of \$0.6 million and \$1.4 million, respectively, compared to \$0.3 million and \$1.0 million for the same periods in 2017. Other income is comprised of third party processing and marketing income and interest income related to cash on hand. The majority of the increase can be attributed to higher average cash levels in 2018 in comparison to 2017. During the three and nine months ended September 30, 2018 the Company recorded third party processing and marketing income of \$0.2 million and \$0.6 million, respectively, and interest income of \$0.4 million and \$0.8 million, respectively.

### Adjusted Funds Flow

Adjusted funds flow for the three and nine months ended September 30, 2018 was an outflow of \$0.4 million and an inflow of \$0.6 million, respectively, compared to an inflow \$1.2 million and an outflow of \$0.8 million for the same periods in 2017. Adjusted funds flow in Q3 2018 was negatively impacted by foreign exchange losses due to the devaluation of the TL and the tax amnesty payment described below in the Current Tax section of this MD&A. The increase in adjusted funds flow for the nine months ended September 30, 2018 was the absence of expenses related to the TBNG acquisition and Banarli Farm-in which negatively impacted 2017 results.

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

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cash provided by (used in) operating activities	\$ (1,511)	\$ (2,943)	\$ (5,893)	\$ (3,630)
Decommissioning costs incurred	355	-	397	14
Change in non-cash working capital	726	4,108	6,072	2,857
Adjusted funds flow (used)	\$ (430)	\$ 1,165	\$ 576	\$ (759)

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### Non-cash Expenses:

#### Share-based Compensation

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

Share-based compensation expense for the three and nine months ended September 30, 2018 was \$0.4 million and \$1.0 million, respectively, compared to \$0.1 million and \$0.3 million for the same periods in 2017. During the nine months ended September 30, 2018, the Company granted 1,077,500 options at a weighted average exercise price of \$4.62 per option.

#### Accretion on Decommissioning Liabilities

Accretion on decommissioning obligations for the three and nine months ended September 30, 2018 was \$0.5 million and \$1.5 million, respectively, compared to \$0.5 million and \$1.3 million for the same periods in 2017. The increase for the nine months ended September 30, 2018 in comparison to the same period in 2017 is due to the TBNG Acquisition and an increased percentage ownership in the TBNG JV wells and facilities and the associated impact on decommissioning obligations offset by the devaluation of the TL.

#### Depletion and Depreciation

Depletion and depreciation for the three and nine months ended September 30, 2018 was \$1.5 million and \$5.4 million, respectively, compared to \$2.4 million and \$6.5 million for the same periods 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 the three and nine months ended September 30, 2018 was \$25.01/boe and \$26.28/boe, respectively, compared to \$24.97/boe and \$25.86/boe for the same periods in 2017.

#### Current Tax

Current tax for the three and nine months ended September 30, 2018 was an expense of \$0.8 million and \$1.0 million, respectively, compared to a recovery of \$0.1 million and an expense of \$0.7 million for the same periods in 2017.

In the third quarter of 2018, the Company elected to participate in a tax amnesty program offered by the Government of Turkey, which allowed companies to pay an amount based on a pre-determined formula to close tax assessments for certain years between 2013 and 2017. In deciding to participate in the program, the Company analyzed the costs and risks involved in current tax positions, including those related to companies that were acquired during this time frame, vs the potential financial burden that would be incurred by not participating in the program and then being unsuccessful in defending tax positions against multiple audits.

The tax amnesty payment is included in current taxes along with current income taxes as follows:

	Three Months ended September 30, 2018	Nine months ended September 30, 2018
Current income taxes	\$ 317	\$ 515
Tax amnesty payment	514	514
<b>Current income taxes</b>	<b>\$ 831</b>	<b>\$ 1,029</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018 and 2017

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### Deferred Tax

Deferred tax for the three and nine months ended September 30, 2018 was a recovery of \$0.5 million and \$0.9 million, respectively, compared to an expense of \$1.6 million and a recovery of \$2.3 million for the same periods 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 the three and nine months ended September 30, 2018 was a loss of \$11.0 million and \$17.0 million, respectively, compared to a loss of \$2.9 million and \$3.7 million for the same periods in 2017 reflecting the devaluation 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		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Geological and geophysical	\$ 52	\$ 111	\$ 146	\$ 790
Drilling & completions	2,664	4,220	3,788	8,045
Workovers & recompletions	(92)	133	455	1,393
Equipping, facilities & other	115	528	352	707
Total exploration and development capital program	2,739	4,992	4,741	10,935
Acquisitions	-	-	-	21,450
Dispositions	-	-	-	(26,288)
Total net capital	\$ 2,739	\$ 4,992	\$ 4,741	\$ 6,097

During Q3 2018, Valeura successfully recompleted the Yamalik-1 well to allow for a long-term production test. Capital spending for Q3 2018 pertained primarily to \$1.6 million of completion costs on Yamalik-1, \$0.4 million of long lead costs for Devepinar-1 and \$0.4 million of long lead costs for the third planned BCGA appraisal well, to be spud in 2019.

The increased scope of the Yamalik-1 completion has resulted in Valeura's 50% share of the final completion cost increasing by \$1.4 million to a total of \$1.7 million year to date.

The Company continued preparations for the spud of the first appraisal well, Inanli-1, under the Banarli Farm in. The well was spudded on October 8, 2018 and drilling operations are expected to take approximately 80 days, after which, the well will be fracture stimulated to test select intervals. Equinor will fund the drilling, completion and testing of the Inanli-1 well. For the remainder of 2018 and 2019, the focus will be on the deep drilling program as described below.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018 and 2017

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### 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.

During Q3 2018, planning and procurement activities for the drilling of three deep wells and the completion, tie in and testing of Yamalik-1 continued. The plan for capital expenditures for 2018/2019 BCGA program is as follows:

Operation	Net VLE Cost (in dollars)	Anticipated Timing
Drill and Test Inanli-1 (Banarli)	\$0	Q4 2018 - Q1 2019
Drill and Test Devepinar-1 (West Thrace)	\$11,300,000	Q4 2018 - Q2 2019
Drill and Test a third planned BCGA appraisal well (Banarli)	\$18,000,000	Q2 2019 - Q3 2019
Hayrabolu-10 Frac and Test	\$1,600,000	Q1 2019
Facilities Capital and Tie-in for 4 wells	\$2,000,000	2019
G&G and studies on Banarli and West Thrace	\$1,400,000	Q4 2018 - 2019
Development and Early Production Planning	\$2,500,000	2019
<b>Total:</b>	<b>\$36,800,000</b>	

The capital program planned for 2018 for the deep and shallow drilling is anticipated to be in the range of \$7 million to \$8 million. The table above primarily outlines the deep drilling program. Valeura has drilled one shallow well on the TBNG JV lands in Q2 2018, Karanfiltepe-7, which was strategically important as it represents a license retention well. The net cost of this well for drilling, completion, and tie-in to Valeura's production facilities was \$0.8 million. The Company will also continue with workovers and maintenance work to support production and maintain facilities in good working order and has performed some abandonment and reclamation activities on a number of older well sites which are no longer producing.

The cost for 2018 for the deep program is anticipated to be \$4.5 million and is comprised of \$1.7 million for the final completion and tie in of Yamalik-1, \$1.6 million for long-lead items and site construction on Devepinar-1, \$0.5 million for long lead items on the third planned BCGA appraisal well and \$0.7 million of BCGA costs including G&G spending.

The Company maintains considerable flexibility in managing its capital budget for 2018 and 2019. Valeura expects to maintain operatorship of the deep rights on the Banarli Lands and West Thrace Lands for 2018 and most of 2019 and through the drilling, completion and testing of the three well appraisal program and will tightly manage all capital requirements and commitments. In addition, the drilling and workover capital spending on the TBNG JV lands is only focused on fulfilling drilling commitments and mitigating natural gas production declines.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2018 and 2017

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**Liquidity, Financing and Capital Resources**

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Opening cash position</b>	\$ 55,945	\$ 9,903	\$ 11,108	\$ 1,987
<b>Inflow of funds</b>				
Share issuance – net of share issuance costs	-	-	55,408	10,108
West Thrace deep rights sales	-	-	-	18,841
Equinor farm-in proceeds	-	-	-	7,447
Adjusted funds flow <sup>7</sup>	-	1,165	576	-
Restricted cash	440	204	840	-
Proceeds from stock option exercises	-	-	1,816	-
Foreign exchange on cash	915	-	1,438	269
Changes in non-cash working capital <sup>8</sup>	2,746	-	-	870
	4,101	1,369	60,078	37,535
<b>Outflow of funds</b>				
Capital expenditures <sup>9</sup>	(2,739)	(4,992)	(4,741)	(10,935)
Decommissioning costs incurred	(355)	-	(397)	(14)
TBNG acquisition	-	-	-	(21,450)
Restricted cash	-	-	-	(3,396)
Foreign exchange on cash	-	(976)	-	-
Changes in non-cash working capital <sup>10</sup>	-	(2,336)	(9,526)	-
Adjusted funds flow (used)	(430)	-	-	(759)
	(3,524)	(8,304)	(14,664)	(36,554)
<b>Closing cash position</b>	\$ 56,522	\$ 2,968	\$ 56,522	\$ 2,968

**Capital Funding and Resources**

As at September 30, 2018, Valeura's working capital<sup>11</sup> balance was \$56.3 million (2017 - \$3.4 million) including cash of \$56.5 million. Valeura's 2018 opening cash position was \$11.1 million. The increase in the working capital/cash position in 2018 was due to the net proceeds of \$55.4 million from the equity financing (net of share issuance costs) completed in Q1 2018 ("the 2018 Offering") and \$1.8 million of proceeds from stock option exercises. In the first nine months of 2018, the Company utilized this opening cash balance plus adjusted funds flow to fund an exploration

<sup>7</sup> Non-GAAP measure – see note regarding non-GAAP measures on page 19.

<sup>8</sup> Includes the following captions from the condensed interim consolidated statements of cash flows: changes in non-cash working capital from operating activities and changes in non-cash working capital from investing activities.

<sup>9</sup> Includes the following captions from the condensed interim consolidated statements of cash flows: exploration and evaluation expenditures and property and equipment expenditures.

<sup>10</sup> Includes the following captions from the condensed interim consolidated statements of cash flows: changes in non-cash working capital from operating activities and changes in non-cash working capital from investing activities.

<sup>11</sup> Working capital is current assets less current liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018 and 2017

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and development capital program of \$4.7 million. The Company anticipates a working capital position at the end of 2018 in excess of \$55 million, based on the capital spending program described above.

### Financial Capacity

As at September 30, 2018 the Company's working capital<sup>12</sup> was \$56.3 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.

### 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.

The Company's capital expenditures include expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not currently subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur in 2019 if Equinor (name changed from Statoil in May 2018) elects to complete Phase 3 under the Banarli Farm-in and thereby earns a 50 percent working interest in the deep rights at Banarli. Phase 3 of the Banarli Farm-in can be completed by the drilling and testing of the Inanli-1, which spud on October 8, 2018. At that point, Equinor 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. In Q1, 2018, the Company received net proceeds of \$55.4 million from the 2018 Offering. The Company has working capital of \$56.3 million at September 30, 2018 in order to meet commitments of the current capital program. If a more significant program is proposed, 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, lower production volumes and associated revenues or default under the Company's joint operating agreements. Valeura has not utilized bank loans or debt capital to finance capital expenditures to date.

### 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 September 30, 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.

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<sup>12</sup> Working capital is current assets less current liabilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2018 and 2017

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Effective September 22, 2018, the Company has available an Account Performance Security Guarantee ("APSG") from Export Development Canada ("EDC"). The APSG, which was issued to National Bank of Canada ("NBC") allows the Company to use the APSG as collateral for certain letters of credit issued by NBC. The facility is effective from May 16, 2018 to May 31, 2019 with a limit of US\$ 2.5 million, and can be renewed on an annual basis. The Company has issued US\$2.2 million in letters of credit in October 2018 under the APSG facility at current exchange rates. After amounts required to cover foreign exchange fluctuations are considered, the company expects to have a restricted cash balance of approximately CA\$0.2 million, reduced from the balance of approximately CA\$2.3 million at September 30, 2018.

### Selected Quarterly Information

	Three months ended			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Total daily production (boe/d)	655	736	859	1,038
Average wellhead price (\$/boe)	\$ 39.83	\$ 44.06	\$ 44.87	\$ 40.03
Petroleum and natural gas sales	2,401	2,949	3,469	3,824
Adjusted funds flow (used)	(430)	461	545	(446)
Per share, basic and diluted	(0.01)	0.01	0.01	(0.01)
Net loss	(2,647)	(1,404)	(2,435)	(946)
Per share, basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.01)
	Three months ended			
	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Total daily production (boe/d)	1,024	934	807	795
Average wellhead price (\$/boe)	\$ 42.14	\$ 44.28	\$ 42.49	\$ 47.97
Petroleum and natural gas sales	3,970	3,764	3,088	3,508
Adjusted funds flow (used)	1,165	959	(2,883)	915
Per share, basic and diluted	0.02	0.01	(0.04)	0.02
Net loss	(4,911)	(526)	(2,001)	(3,189)
Per share, basic and diluted	\$ (0.07)	\$ (0.01)	\$ (0.03)	\$ (0.06)

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

- Revenue is directly impacted by the Company's ability to mitigate natural production declines with production additions from an on-going capital expenditure 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 the characteristics of its contractual cash flows.

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

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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.

### 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 in the process of reviewing and analyzing contracts that fall into the scope of the new standard. The extent of the impact of the adoption of the standard has not yet been determined.

### 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 July 1, 2018 and ending on September 30, 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 September 30, 2018 other than those previously disclosed in this MD&A.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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 third well of the deep program; the ability to determine the source of water production from Yamalik-1; the ability to obtain core and testing results from Inanli-1; the anticipated working capital balance at the end of 2018; the timing of the delineation drilling campaign, including the timing of drilling results from Inanli-1, the timing of fracing and testing Inanli-1, the timing of the spud of Devepinar-1 and drilling results, and the timing of picking the location for the third well; 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 expectations regarding realized prices in Q4 2018; 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, and expected capital expenditures; and the availability of operating cash flow and the ability to finance development through 2020 from existing working capital and operating cash flow.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: political stability of the areas in which the Company is operating and completing transactions, and in particular the period of political change and uncertainty in Turkey from 2016 to 2018; continued safety of operations and ability to proceed in a timely manner; continued operations of and approvals forthcoming from the Turkish

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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 in 2019. See Valeura's 2017 AIF filed on SEDAR at [www.sedar.com](http://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.