valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2012 and 2011

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of May 14, 2012 and should be read in conjunction with Valeura's unaudited consolidated financial statements and related notes for the periods ended March 31, 2012. Additional information relating to Valeura is available under Valeura's profile on www.sedar.com, including Valeura's annual information form and audited consolidated financial results for the year ended December 31, 2011. 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 financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2011 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, and should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2011.

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.

Special Note Regarding Non-IFRS 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 "funds flow from operations" (net loss for the period adjusted for non-cash items) are not IFRS measures and do not have standardized meanings prescribed by IFRS. The closest IFRS measure to operating netback and funds flow from operations is net loss – see the reconciliation of these non-IFRS financial measures to net loss under "Results of Operations". The Company uses these non-IFRS measures to evaluate operating performance.

Forward-looking Statements – Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, information with respect to: the Company's growth strategy, operational decisions and the timing thereof; development and exploration plans and expenditures for the Company's Turkish operations, including any additional expenditures and timing associated with farm-in lands; the outcome of the Company's application to the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") for an exploration license on one of the cancelled Rubai licenses and two exploration licenses in the Karakilise area, and the timing associated therewith, and future production levels. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: the ability of the Company to execute its strategy and close on acquisitions; field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, including stock exchange approvals, both domestically and internationally; continued operations of and approvals forthcoming from the GDPA in a manner consistent with past conduct; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in foreign countries; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking information. The material risk factors affecting the Company and its business are similar to those of other companies engaged in the business of exploring for and producing oil and gas, both domestically and in foreign countries. See the "Business Risks and Uncertainties" section of this MD&A for a further description of the risks facing the Company.

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.

valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2012 and 2011

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2012	March 31, 2011
Financial		
Petroleum and natural gas sales	**$ 6,810,184**	$ 562,132
Net loss	**(2,340,140)**	(4,262,009)
Per share, basic and diluted	**(0.05)**	(0.21)
Funds flow from operations[1]	**2,938,919**	(1,924,325)
Per share, basic and diluted	**$ 0.06**	$ (0.10)
Production volumes		
Crude oil and NGLs (bbl/d)	**59**	54
Natural gas (Mcf/d)	**9,074**	611
Total (boe/d)	**1,572**	156
Sales prices		
Crude oil(per bbl)	**$ 88.04**	$ 69.98
Natural gas (per Mcf)	**7.67**	4.35
Total (per boe)	**47.62**	40.13
Capital expenditures	**8,687,937**	4,197,962
Net working capital surplus[2]	**24,068,647**	10,300,713
Cash and cash equivalents	**$ 22,299,882**	$ 9,737,280
Weighted average shares outstanding[3]		
Basic and diluted	**46,406,135**	19,867,713

1. Funds flow from operations is calculated as cash flow from operating activities before adjustments for decommissioning expenditures and net changes in non-cash working capital. The diluted weighted average number of shares outstanding for the three months ended March 31, 2012 would increase by 3,461,326 for the purpose of calculating funds flow from operations per share. This had no impact on the per share amount displayed, due to rounding.
2. Net working capital is calculated as cash and working capital.
3. After giving effect to the 10:1 share consolidation effective September 15, 2011. The average number of common shares outstanding is not increased for outstanding stock options and warrants when the effect is anti-dilutive.

Outstanding Share Data

As at March 31, 2012 and May 14, 2012[4]	
Common shares	46,406,135
Warrants[5]	13,269,217
Stock options	3,259,000
Performance warrants	2,796,750
Diluted	65,731,102

4. After giving effect to the 10:1 share consolidation effective September 15, 2011.
5. The actual number of share purchase warrants outstanding is 132,692,175 which will be consolidated on a 10:1 basis only upon exercise. The number of share purchase warrants after consolidation may differ slightly due to rounding.

The Company

Valeura Energy Inc. and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey and Western Canada. The Company continues to pursue a strategy of expanding internationally in Turkey and other selected countries in the region. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE.

Valeura has grown internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest which originally included the Middle East and North Africa region, the Mediterranean Basin and South America. The Company completed its first international transaction in Turkey during 2010 and has executed five other transactions since. The Company now holds an interest in approximately 2.1 million gross acres (0.75 million net) in Turkey. The Company owns a 40 percent interest in an established shallow gas production and marketing business in the Thrace Basin of Turkey and holds a large acreage position in the Thrace Basin with exposure to a potentially significant tight gas resource play below the existing shallow gas production.

Turkish Operations

Anatolian Basin

AME-GYP Farm-in

Valeura's first transaction in Turkey was a two-phase farm-in on lands held by Aladdin Middle East Ltd. ("AME") and Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") for a minimum consideration of US$8.8 million (Phase I) and a maximum consideration of US$17.6 million (Phase I + Phase II) by the end of 2011. The lands are in the Anatolian Basin in southeast Turkey, which are prospective for light and heavy oil development, exploitation and exploration. The lands included a production lease on the Kahta heavy oil field, three exploration licenses in the Karakilise area and five exploration licenses in the Rubai area. Subsequent to the execution of the farm-in agreement, one exploration license was relinquished in the Karakilise area in 2010 and two others were continued in 2011 for a further three years following a successful recompletion of an existing well and a new discovery well, both funded by Valeura. At Rubai, all five licenses expired due to unmet district drilling requirements. Valeura re-applied for one of the expired Rubai exploration licenses on May 12, 2011. The outcome and timing of this application is uncertain.

By letter dated September 5, 2011, Valeura notified AME-GYP that it had funded the minimum investment level of US$8.8 million under the farm-in agreement and requested the AME-GYP initiate the transfer of a 25 percent interest in the Karakilise License 2674 and 2677 to Valeura (the "First Assignment"). Valeura also indicated its intent to fund the deepening of the Altinakar-1 well to earn a higher working interest.

After completing a well test program and geological and engineering studies of the Kahta heavy oil field, Valeura has decided not to proceed with a re-development program on the Kahta lease.

On November 14, 2011, the Company executed a binding letter agreement with GYP and AME which defined Valeura's working interest of 27.5 percent in the two Karakalise Licenses 2674 and 2677. Under the terms of the agreement, the Company agreed to fully fund the first US$1.3 million of the deepening cost of Altinakar-1 well to the primary exploration target of light oil in the Bedinan Formation. GYP is the operator of the licenses. The deepening to a depth of 2,418 meters was completed in March 2012. Based on oil shows during drilling and encouraging logging results, the well was cased and is being tested. Current production is 10 to 13 bbl/d of light oil (gross) at a water cut of 50 to 60 percent.

The Company expects to drill up to two exploration wells in the Karakilise and Gaziantep areas in 2012 and acquire additional 2D seismic. The total capital program for the Anatolian Basin is expected to be approximately $3.0 million and will be funded by cash on hand and funds flow from operations.

Thrace Basin

Edirne Asset Acquisition

The Company closed its purchase of natural gas assets in the Thrace Basin from Edirne Enerji Petrol Arama Üretim Ve Ticaret Limited Şirketi ("Edirne") on March 24, 2011 for a total cash payment of approximately $1.9 million. An affiliate of TransAtlantic Petroleum Ltd. ("TransAtlantic") is the operator of the Edirne license.

The Edirne License covers an area of 100,080 gross acres (35,028 net acres) in the Thrace Basin. Valeura acquired a 35 percent working interest in the lands and producing assets associated with the Edirne License. Potential exists on the Edirne License to carry out well workovers, compression and drilling dependent on a re-interpretation of the existing 3D seismic. The Company is also focusing on determining the potential for deeper conventional and unconventional plays on the Edirne License in conjunction with the broader assessment of the deep potential on the Company's lands in the Thrace Basin.

TBNG-PTI Asset Acquisition

The Company closed its second acquisition of producing natural gas assets and lands in the Thrace Basin of northwest Turkey and interests in exploration lands in the Southeast Anatolian Basin (Gaziantep area) of southeast Turkey owned by Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Pinnacle Turkey Inc. ("PTI") on June 8, 2011 for $53.7 million (after adjustments for the period from the effective date of October 1, 2010 to June 8, 2011). This acquisition closed contemporaneously with acquisitions made by affiliates of TransAtlantic from the same vendor. All of the TBNG-PTI lands are operated by TransAtlantic.

This acquisition provides cash flow to the Company from sales of shallow gas production in the Thrace Basin, interests in 624,361 gross acres of land (220,617 net), and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The lands located in the Thrace Basin include four production leases and five exploration licences, of which two licences are entirely on land and three licences have a portion in the shallow waters (up to 200 meter water depth) of the Sea of Marmara. As part of the original acquisition, the TBNG-PTI lands included five exploration licenses in the deeper waters of the Sea of Marmara (200 to 1,200 meter water depth). The Company elected, in conjunction with its' joint interest partners, to relinquish these licenses upon review of the farm out efforts which were unsuccessful.

Natural gas is currently produced in the Thrace Basin from approximately 170 wells, all located onshore, that are completed primarily in stacked sands in the Danismen and Osmancik formations at relatively shallow depths of 500 to 1,500 meters. The gas is processed and compressed in TBNG facilities and is distributed on TBNG's pipeline network directly to commercial and end-user customers. TransAtlantic has responsibility for the marketing arrangements on behalf of the parties.

Opportunities exist on the Thrace Basin lands to continue to pursue exploration and development drilling, well workovers and wellhead compression to mitigate natural declines in existing production from conventional shallow gas reservoirs. Approximately 3,500 km of legacy 2D seismic is available on the onshore lands in the Thrace Basin and an additional 413 km^2 of 3D seismic was acquired in the second half of 2011, and fully interpreted by April 2012, to support the Company's exploration and development drilling program.

Valeura believes there is upside potential associated with applying modern technology to exploit deeper tight gas sands, particularly in the Mezardere formation down to depths of approximately 4,000 meters. Selective deep drilling in the past indicates the presence of relatively low porosity (3 to 15%), stacked sandstone reservoirs in the Mezardere that are gas-charged.

The TBNG-PTI acquisition described above also includes lands in the Southeast Anatolian Basin. The lands located in the Gaziantep area of the Southeast Anatolian Basin, include four exploration licenses covering an area of 488,070 gross acres (126,898 net).

The total 2012 capital program for the TBNG lands is expected to be $30.0 million and will be funded by cash on hand and funds flow from operations

Thrace Basin Farm-ins and Other Acquisitions

On May 4, 2011, the Company completed a farm-in to earn a 100 percent working interest and operatorship of License 4201 (Marhat farm-in) in the Thrace Basin. The license requires a commitment to drill two wells at a cost of approximately US$3.0 million. The Company drilled the first well, Dagdere-1, in the February 2012 for a total cost of approximately US$1.4 million. The remaining estimated commitment is US$1.6 million.

On June 13, 2011, the Company completed a farm-in to earn a 50 percent working interest in Licenses 4094 and 4532 (TransAtlantic farm-in) in the Thrace Basin. TransAtlantic remains as the operator of these licenses. The combined licenses require the commitment to drill two wells and spend approximately US$3.0 million on seismic. The Company drilled the first well, Evrenbey-1, in November 2011 and plans to initiate the seismic program in 2012. The remaining estimated commitment is US$4.0 to US$4.5 million.

The total 2012 capital program on the Thrace Basin farm-in lands is expected to be approximately $6.0 million and will be funded by cash on hand and funds flow from operations.

On January 16, 2012, Valeura closed its acquisition of a 24 percent non-operated working interest in three exploration licenses in the Thrace Basin for consideration of US$1.5 million. The licenses are operated by Merty Energy.

Outlook

The Company continues to focus on three key objectives in Turkey:

- Proving-up the potential of the tight gas play in the Thrace Basin;
- Sustaining the shallow gas business in the Thrace Basin; and
- Fulfilling exploration-focused work programs on high potential farm-in acreage in the Thrace Basin (gas targets) and in the Anatolian Basin (oil targets).

The Company has reassessed expected capital expenditures in 2012 and has increased the outlook by approximately 15% to $35 to 40 million, almost all of which is directed to Turkey. This increase from prior guidance of $30 to $35 million reflects higher drilling and completion costs due to a higher proportion of deeper wells below 1,500 metres partially offset by a lower total number of wells due to the deferral of first quarter drilling. Cash and equivalents on hand and targeted cash flow of $15 to 20 million in 2012 should be sufficient to fully fund this expected range of 2012 capital expenditures.

Thrace Basin

Unlocking the potential in the deeper tight gas play in the Thrace Basin remains a top priority for the Company. The Company is now targeting to complete approximately 25 well re-entry fracs on the TBNG-PTI lands in 2012, including 10 completed to date. The Company is also targeting to drill up to 14 deep wells in 2012 at depths ranging from 1,500 metres to 4,000 metres in the Mezardere shale and Teslimkoy sand units, including two drilled to date, and for planning purposes, stimulate each of these with single or multi-stage fracs.

With respect to the shallow gas business on the TBNG-PTI lands, the revised 2012 budget outlook includes up to 32 well recompletions, including nine completed to date. The Company is budgeting 14 shallow gas wells in 2012, including three drilled to date.

Acquisition of an additional 260 km^2 of 3D seismic and 50 km of 2D seismic on the TBNG-PTI lands is also planned for 2012 to expand the prospect and lead inventory in both shallow and deep formations.

On the new farm-in lands in the Thrace Basin (Marhat, TransAtlantic and GYP), the Company plans to drill at least two wells in 2012, including one completed to date, and to acquire additional 2D seismic. Firm drilling and seismic plans are under review with partners.

Business Development

The Company is pursuing three new licence applications and other farm-in and acquisition opportunities in Turkey. These have the potential to further expand the Company's acreage position in the Thrace Basin and Anatolian Basin.

Results of Operations

	Three months ended	
	March 31, 2012	March 31, 2011
Petroleum and natural gas sales	**$ 6,810,184**	$ 562,132
Royalties	**(967,898)**	(56,280)
Production costs	**(1,098,927)**	(373,003)
Operating netback[1]	**4,743,359**	132,849
Other income	**109,243**	41,930
General and administrative	**(1,829,453)**	(1,488,215)
Transaction costs	**-**	(610,889)
Realized foreign exchange loss	**(84,230)**	-
Funds flow from operations[1]	**2,938,919**	(1,924,325)
Non-cash expenses		
Stock based compensation	**(372,210)**	(614,656)
Financing costs	**(154,770)**	(3,108)
Exploration and evaluation expense	**(569,395)**	(1,377,650)
Unrealized foreign exchange gain (loss)	**229,026**	(114,004)
Depletion and depreciation	**(3,240,541)**	(228,266)
Impairment	**(888,000)**	-
Deferred tax expense	**(283,169)**	-
Net loss	**$ (2,340,140)**	$ (4,262,009)

[1] Non-IFRS measure – see note regarding non-IFRS measures on page 1

Corporate Sales Volumes

	Three months ended	
	March 31, 2012	March 31, 2011
Crude oil and NGLs (bbl/d)	**59**	54
Natural gas (Mcf/d)	**9,074**	611
Total (boe/d)	**1,572**	156
Turkey (boe/d)	**1,502**	22
Canada (boe/d)	**70**	134
Total (boe/d)	**1,572**	156

Average sales volumes increased ten-fold to 1,572 boe/d in Q1 2012 from 156 boe/d in Q1 2011. The increase is a result of the Edirne and TBNG-PTI asset acquisitions in Turkey in 2011. Turkey comprises 95 percent of Valeura's total production. The majority of production in Turkey is natural gas production from the Thrace Basin.

Corporate Operating Netbacks (per boe)

	Three months ended	
	March 31, 2012	March 31, 2011
Petroleum and natural gas	**$ 47.62**	$ 40.13
Royalties	**(6.77)**	(4.02)
Production costs	**(7.68)**	(26.63)
Operating netback	**$ 33.17**	$ 9.48

Sales Volumes and Operating Income – Turkey Operations

	Three months ended	
	March 31, 2012	March 31, 2011
Natural gas (Mcf/d)	**8,914**	134
Crude oil (bbl/d)	**16**	-
Total (boe/d)	**1,502**	22
Operating income:		
Petroleum and natural gas sales	**$ 6,432,042**	$ 84,015
Royalties	**(864,615)**	(10,502)
Production costs	**(909,464)**	(33,324)
Operating income	**$ 4,657,963**	$ 40,189

Operating Netbacks (per boe) – Turkey Operations

	Three months ended	
	March 31, 2012	March 31 2011
Price	**$ 47.06**	$ 41.89
Royalties	**(6.33)**	(5.24)
Production costs	**(6.65)**	(16.62)
Operating netback (per boe)	**$ 34.08**	$ 20.03

Pricing Information

	Three months ended	
Average benchmark prices	**March 31, 2012**	March 31, 2011
Crude oil – Edmonton Light (per bbl)	**$ 92.18**	$ 87.15
Natural gas – BOTAS (per Mcf)[1]	**TL 15.19**	TL 13.21
Natural gas – BOTAS (per Mcf)	**$ 8.47**	$ 8.26
Average exchange rate (TL/CAD)	**1.7929**	1.5984
Valeura's average realized prices		
Crude oil (per bbl)	**$ 88.04**	$ 69.98
Natural gas – Turkey (per Mcf)	**$ 7.77**	$ 6.98
Natural gas – consolidated (per Mcf)	**$ 7.67**	$ 4.35

The following table shows the percentage increase in Valeura's realized prices for Q1 2012 compared to Q1 2011:

Crude oil	26%
Natural gas	76%

Natural gas prices remain much stronger in Turkey when compared with Canada. With more than 90 percent of Valeura's current production coming from natural gas in Turkey, the Company has positioned itself to take advantage of these higher natural gas prices. Natural gas prices under sales contracts for all production in Thrace Basin are linked to the BOTAS benchmark price in Turkish Lira. Effective October 1, 2011, the reference price increased by 15 percent as quoted in Turkish Lira. This resulted in an effective Canadian dollar converted reference price of $8.47 per Mcf for Q1 2012. Effective April 1, 2012, the BOTAS reference price was increased a further 20% which will result in an effective Canadian dollar converted reference price in excess of $10.00 per Mcf. All natural gas sales in the Edirne field are delivered to the BOTAS pipeline while sales on the TBNG-PTI lands are direct contracts with industrial buyers at prices referenced to the BOTAS price. All natural gas sales in the Thrace Basin are subject to a discount to the BOTAS reference price.

Average realized natural gas prices in Turkey for Q1 2012 were $7.77 per Mcf compared to $6.98 per Mcf in the same period in 2011 due to the increase in the BOTAS reference price in Q4 2011 and reduced discounts to the BOTAS price for direct sales contracts effective January 1, 2012. The increase was also the result of slight strengthening of the Turkish Lira against the Canadian Dollar in Q1 2012. Average realized natural gas prices for the three months ended March 31, 2012 in Turkey of $7.77 per Mcf reflects an average discount of 8 percent to the BOTAS price (13 percent – Q4 2011).

[1] Boru Hatlari ile Petrol Tasima Anonim Sirketi ("BOTAS") owns and operates the national crude oil pipeline grid and the national gas pipeline grid in Turkey. BOTAS regularly posts prices and its Industrial Interruptible Tariff benchmark is shown herein as a reference price. See the 2011 Annual Information Form for further discussion.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2012	March 31, 2011
Revenues by product		
Crude oil and NGLs	**$ 478,348**	$ 323,167
Natural gas	**6,331,836**	238,965
Total revenues	**$ 6,810,184**	$ 562,132

Petroleum and natural gas sales revenues for the three months ended March 31, 2012 were 93 percent natural gas and 7 percent oil and natural gas liquids. The increase in revenues when compared to the same period in 2011 is primarily due to the addition of natural gas revenues in Turkey from the TBNG-PTI asset acquisition which closed on June 8, 2011.

Royalties

	Three months ended	
	March 31, 2012	March 31, 2011
Total	**$ 967,898**	$ 56,280
Percentage of revenue	**14.2%**	10.0%

Royalties increased for the three months ended March 31, 2012 when compared to the same period in 2011 primarily due to the addition of natural gas production in Turkey. Revenues in Turkey are subject to a 12.5 percent federal royalty and certain overriding royalties where applicable on a license by license basis.

Production Costs

	Three months ended	
	March 31, 2012	March 31, 2011
Production costs	**$ 1,098,927**	$ 373,003
$per boe	**7.68**	26.63

Overall operating costs increased for the three months ended March 31, 2012 when compared to the same period in 2011 due to the addition of production from the Thrace Basin assets in Turkey. On a per unit cost basis, costs decreased to $7.68/boe in Q1 2012 from $26.63/boe in Q1 2011. The unit cost decrease is the direct result of lower cost of natural gas operations in Turkey. For the three months ended March 31, 2012, operating costs in Turkey were $1.11 per Mcf ($6.65/boe).

With more than 90 percent of Valeura's current production coming from natural gas production in Turkey, the Company is benefitting from a lower cost operation. The operating costs reflect the production acquired from the TBNG-PTI and Edirne acquisitions. Valeura anticipates further reduction in costs on a per unit basis with additional natural gas production from future drilling activity.

General and Administrative Expenses

	Three months ended	
	March 31, 2012	March 31, 2011
General and administrative	**$ 1,934,375**	$ 876,530
Business development	**139,487**	614,935
Total gross general and administrative expenses	**2,073,862**	1,491,465
Recoveries	**(244,409)**	(3,250)
Total net general and administrative expenses	**$ 1,829,453**	$ 1,488,215

General and administrative ("G&A") costs increased for the three months ended March 31, 2012 when compared to 2011 due to expansion of Turkish operations. G&A costs for Q1 2012 reflect a larger number of employees and consultants and higher office costs related to an increase in personnel and the set-up of an office and related costs in Ankara, Turkey. Valeura has a significant technical role in supporting the operation of the TBNG lands and has employed a strong technical staff of employees and consultants focusing on the development of the deeper gas potential of the Thrace Basin. This has resulted in higher general and administrative costs in the early phase of development in Turkey.

Transaction Costs

In accordance with IFRS 3 – "Business Combinations", acquisition related costs (transaction costs) are recognized separately from the business combination and are included in the statement of loss. For the three months ended March 31, 2012 transactions costs were $nil compared to $610,889 for the same period in 2011. Transaction costs for 2011 pertained to the Edirne and TBNG-PTI asset acquisitions.

Financing costs

	Three months ended	
	March 31, 2012	March 31, 2011
Accretion of decommissioning obligations	**$ 154,770**	$ 3,108

Accretion of decommissioning obligations was $154,770 for the three months ended March 31, 2012, compared to $3,108 for the same period in 2011. Accretion of decommissioning obligations was higher in 2012 due to the additional wells and facilities acquired in Turkey.

Foreign Exchange

The Company incurred a combined realized and unrealized foreign exchange gain of $144,796 for the three months ended March 31, 2012. The Q1 2012 foreign exchange gain is comprised of an unrealized foreign exchange gain of $229,026 and a realized foreign exchange loss of $84,230. This compares to an unrealized foreign exchange loss of $114,004 in the three months ended March 31, 2011. The functional currency for the Company's Turkish operations is the Turkish Lira and the functional currency for the Company's Canadian operations is the Canadian Dollar. The foreign exchange gains were the result of translation of accounts denominated in currencies other than the functional currencies of Valeura and its subsidiaries. The unrealized gain for Q1 2012 is primarily the result of a strengthening of the Turkish Lira against the Canadian Dollar. The realized loss for Q1 2012 is the result of settling transactions denominated in currencies other than the functional currency of the entity.

Other Income

During the three months ended March 31, 2012, the Company recorded other income of $109,243 compared to $41,930 for the same periods in 2011. Other income is comprised of interest income related to cash on hand. The increase is attributed to higher average cash levels in 2012 in comparison to 2011.

Income Taxes

During the three months ended March 31, 2012, the Company did not have any current income tax expense. Capital spending and utilization of tax pools in the first quarter of 2012 was sufficient to offset income earned during the quarter.

Funds Flow from Operations

Funds flow from operations for the three months ended March 31, 2012 was an inflow of $2,938,919 compared to an outflow of $1,924,325 for the same period in 2011. The increased funds flow from operations for the three months ended March 31, 2012 is the result of increased production due to the acquired assets in the Thrace Basin in Turkey. This increase is partially offset by high general and administrative costs associated with international business development activities, and specifically the growth of the Turkish operations.

Non-cash Expenses:

Stock-based Compensation

Stock-based compensation is a non-cash expense associated with the stock options and performance warrants issued to directors, officers, employees and consultants of the Company.

Stock-based compensation expense for the three months ended March 31, 2012 was $372,210 compared to $614,656 for the same period in 2011. Performance warrants issued in 2010 attracted a higher amount of stock-based compensation expense in the prior period due to accelerated amortization under IFRS.

Exploration and Evaluation Expense

Exploration and evaluation expenses consist of impairment of the Company's exploration projects. Exploration and evaluation expense for the three months ended March 31, 2012 was $569,395 compared to $1,377,650 for the same period in 2011. The exploration and evaluation expense for 2012 consists of expenditures for one dry hole drilled on the TBNG-PTI lands at Guney Osmanli-2.

Depletion and Depreciation

Depletion and depreciation for the three months ended March 31, 2012 was $3,240,541 compared to $228,266 for the same period in 2011. Depletion and depreciation was higher in 2012 due to the addition of production volumes from the Company's Turkish operations. 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 months ended March 31, 2012 was $22.65/boe compared to $16.30/boe for the same period in 2011. Depletion and depreciation on a per unit basis for the three months ended March 31, 2012 is higher due to the Edirne and TBNG-PTI acquisitions reflecting the short reserve life of these shallow gas reserves. The capital program for 2012 will have significant focus on deeper gas bearing formations with the potential identification of larger, longer life reservoirs with the effect of lowering the depletion and depreciation rate.

Impairment

Impairment for the three months ended March 31, 2012 was $888,000 compared to $nil for the same period in 2011. Impairment in 2012 relates to a reduction in fair value of the Canadian assets and is the result of decreased Canadian natural gas prices in the first quarter of 2012 and reduced more pessimistic outlook for a rebound in natural gas prices.

Deferred Tax

Deferred tax expense for the three months ended March 31, 2012 was $283,169 compared to $nil for the same period in 2011. The deferred tax expense 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 that commenced in 2011.

Currency Translation Adjustments

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 ("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 gain for the three months ended March 31, 2012 was $2,179,400. The currency translation gain is related to the increase in value of the Turkish Lira when compared to the Canadian Dollar throughout the first three months of 2012. This compares to a currency translation adjustment loss of $313 during the three months ended March 31, 2011.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
Turkey	**March 31, 2012**	March 31, 2011
Geological and geophysical	**$ 201,942**	$ 117,800
Land	**1,553,726**	-
Drilling and completions	**5,035,894**	2,192,140
Equipping	**123,087**	-
Recompletions and fractures	**1,579,040**	-
Other	**1,966**	-
Asset acquisitions	**-**	1,946,450
Turkey total	**8,495,655**	4,256,390
Canada total	**192,282**	(58,428)
Consolidated total	**$ 8,687,937**	$ 4,197,962

Turkey

Capital spending for Q1 2012 of approximately $8.7 million was comprised of $1.5 million of land acquisitions and $7.2 million of exploration and development capital. The first quarter of 2012 was not an active quarter for drilling in Turkey pending the interpretation of the 3D seismic acquired in late 2011. The Company spudded 3 wells (1.675 net) in Q1 2012 of which 2 wells (1.4 net) targeted natural gas in the Thrace Basin while the other well (0.275 net) was drilled for oil in the Anatolian Basin. The two natural gas wells were cased as potential gas wells and are awaiting completion and the one Anatolian Basin well has been completed as an oil well. Two other wells (0.8 net) that were spudded at the end of 2011 were rig released in the first quarter of 2012, of which one was cased as a potential gas well and one well was drilled and abandoned. In addition, during the first quarter of 2012, Valeura closed the $1.5 million acquisition of a 24% participating interest in three exploration Licenses 3998, 3999 and 4187 covering an area of 242,440 acres (gross) in the western reaches of the Thrace Basin.

Valeura has now secured approvals from the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") for the transfer to Valeura of working interests for all 22 exploration licences and leases. Transfers in two exploration licences in the Thrace Basin associated with a farm-in on Licences 4094 and 4532 (Valeura 50%) were most recently received. The Company relinquished offshore Licenses 4632, 4323, 4324, 4459 and 4460 (Valeura 35%) in the deep waters of the Sea of Marmara in late February 2012 after farm out efforts were unsuccessful.

Thrace Basin

Valeura spudded two wells (0.8 net) on the TBNG-PTI lands in late December 2011, which finished drilling in January 2012. The Sulemaniye-2 well (Valeura 40%) was drilled and cased to a depth of 2,450 meters as a potential gas well and is expected to be completed and potentially fractured in late 2012 or early 2013. The Guney Osmanli-2 shallow gas well (Valeura 40%) was drilled to a depth of 1,250 meters and was abandoned after encountering wet sands.

The Company completed the drilling of the Evrenbey-1 exploration well (Valeura 50%) on farm-in licence 4094 in November 2011, which was cased to a depth of 1,900 meters as a potential gas well. Drill stem tests in the first quarter of 2012 confirmed gas in very low permeability reservoirs in the zones of interest. The well is expected to be fractured in late 2012 or early 2013. This is the first of two exploration wells to be drilled by Valeura to earn a 50% working interest in Licences 4094 and 4532.

Valeura drilled and cased the Dagdere-1 exploration well (Valeura 100%) on Marhat farm-in License 4201 in February 2012 to a depth of 2,256 meters as a potential gas well. Completion and potential fracturing of this well will also likely be deferred to late 2012 or early 2013.

Valeura completed the processing and interpretation of 413 km^2 of new 3D seismic in the Tekirdag and Hayrabolu areas on the TBNG-PTI lands in the first quarter of 2012.

The Company spudded the Baglik-1 deep well on March 10, 2012 on License 3931. The well was drilled and cased to a depth of 3,594 meters and was rig released on May 6, 2012. It is the deepest well drilled to date on TBNG-PTI lands. Four full diameter cores and more than 90 sidewall cores were cut in the well to support a number special core analysis studies underway in Calgary. A completion, testing and fracture program is currently being designed for the well.

Valeura continued its fracture and recompletion program in Q1 2012 with ten re-entry fractures and eight recompletions of shallow gas wells. The expenditures for Q1 2012 were $1.6 million for the fracture and recompletion program.

Anatolian Basin

On November 14, 2011, Valeura signed a binding letter agreement with AME and GYP outlining terms to earn a participating interest of 27.5 percent in the two Karakalise Licenses 2674 and 2677 in the Anatolian Basin. Under the terms of the agreement, the Company agreed to fund the first US$1.3 million of the deepening cost of the Altinakar-1 well to the primary exploration target of light oil in the Bedinan formation at a depth of 2,500 meters. The deepening operation was completed in Q1 2012 and represents the final earning expenditure under the AME/GYP farm-in agreement. The well is currently producing 10 to 13 bbl/d of light oil (gross) at a water cut of 50% to 60%. The well was perforated and acid stimulated but may warrant a hydraulic fracture treatment, which is under review. The overlying Dadas Shale and shallower Mardin Group also appear to be prospective based on log analysis and may be tested following testing of the Bedinan. Additional Mardin pay appears to be present below the original Mardin completion.

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2012	March 31, 2011
Opening cash position	**$ 24,106,718**	$ 19,460,311
Inflow of funds		
Funds inflow from operations	**2,938,919**	-
	2,938,919	19,460,311
Outflow of funds		
Funds outflow from operations	**-**	(1,924,325)
Capital expenditures	**(8,687,937)**	(4,197,962)
TBNG-PTI deposit, deal costs and other	**-**	(5,287,319)
Decommissioning costs incurred	**(2,184)**	-
Changes in working capital and foreign exchange on cash	**3,944,366**	1,686,575
	(4,745,755)	(9,723,031)
Closing cash position	**$ 22,299,882**	$ 9,737,280

Capital Funding and Resources

As at March 31, 2012, Valeura's working capital balance was $24,068,647, including a cash position of $22,299,882 as reconciled above.

The Company's cash position is the primary source of capital for all exploration and development expenditures in 2012. Valeura's opening cash position in 2012 was $24,106,718. The Company utilized its cash balance and funds flow from operations of $2,938,919 to fund the Q1 2012 exploration and development capital program in the amount of $8,687,937 and incurred decommissioning costs of $2,184. The resultant cash and cash equivalents balance at March 31, 2012 is $22,299,882.

Financial Capacity

At the end of Q1 2012, the Company's working capital position was approximately $24.1 million. The combination of Valeura's 2012 opening working capital surplus plus estimated 2012 operating cash flow after G&A of $15 to $20 million is sufficient to fund an estimated capital program of $35 to $40 million in 2012.

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 strategic acquisitions and 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 subject to any externally imposed capital requirements.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. It is expected that the Company's bank loan capacity will increase with continued expansion of its production operations in Turkey. In the future, if the Company borrows on its bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations or any other covenants under a potential international lending facility. 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.

Selected Quarterly Information

	Three months ended			
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Total daily production (boe/d)	1,572	1,856	1,635	692
Average wellhead price ($/boe)	47.62	44.61	38.81	43.02
Petroleum and natural gas sales	$ 6,810,184	$ 7,619,255	$ 5,836,765	$ 2,707,193
Funds from operations	2,938,919	4,084,943	1,983,189	(1,622,240)
$per share (basic and diluted)[1]	0.06	0.09	0.04	(0.06)
Net loss	(2,340,140)	(3,406,130)	(3,749,286)	(4,359,006)
$per share (basic and diluted)[1]	(0.05)	(0.07)	(0.08)	(0.20)

	Three months ended			
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Total daily production (boe/d)	156	193	243	263
Average wellhead price ($/boe)	40.13	38.63	35.54	37.35
Petroleum and natural gas sales	$ 562,132	$ 686,098	$ 794,215	$ 892,878
Funds from operations	(1,924,325)	(879,447)	(666,787)	(885,673)
$per share (basic and diluted)[1]	(0.10)	(0.04)	(0.03)	(0.05)
Net loss	(4,262,009)	(3,350,588)	(3,171,965)	(3,194,474)
$per share (basic and diluted)[1]	(0.21)	(0.17)	(0.20)	(0.20)

1. The average number of common shares outstanding is not increased for outstanding stock options and performance warrants when the effect is anti-dilutive. The diluted weighted average number of shares outstanding would increase by 3,461,326 for the purpose of calculating funds flow from operations per share in Q1 2012. This had no impact on the per share amount displayed, due to rounding.

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

- Revenue is directly impacted by the Company's ability to replace existing declining production and add incremental production through its on-going capital expenditure program.
- Over the past two years, the price of natural gas in Canada has been negatively impacted by an increasing supply of natural gas coming from new technology tapping into abundant supplies of tight shale gas reservoirs in North America. Given its international focus, Valeura is benefiting from higher natural gas prices and netbacks in Turkey which has resulted in improved operating performance that is reflected in the Company's financial statements.
- The Company acquired producing natural gas assets in the Thrace Basin in 2011 adding approximately 1,500 boe/d of production. The results of operations from these assets are included in the Company's financial and

operating results from the close of the acquisitions. The Company incurred significant non-recurring transactions costs totaling $1.9 million related to these acquisitions.

- With the commencement of drilling and production operations in Turkey, the Company has increased foreign exchange and currency translation exposure. Capital expenditures in Turkey are denominated in US Dollars and Turkish Lira and gas prices and operating expenses are denominated in Turkish Lira resulting in currency exposure on a consolidated basis. The combined realized and unrealized foreign exchange gain in Q1 2012 is $144,796 while the currency translation gain recorded in accumulated other comprehensive income is $2,179,400. The currency translation gain for the three months ended March 31, 2012 is the direct result of an increase in the Turkish Lira against the Canadian Dollar. Currency translation gains and losses will fluctuate based on the valuation of these currencies against each other, do not have a direct impact on operations and are only the result of consolidation of operations under IFRS.
- The Company incurred impairment charges of $888,000 on its Canadian operations and exploration expense of $569,395 on its Turkish operations for the three months ended March 31, 2012. The Canadian impairment relates to Grand Forks and Minor Properties and the exploration and evaluation expense consists of one dry hole drilled on the TBNG-PTI lands.

First Quarter

During the first quarter, increased production in the Thrace Basin in Turkey resulted in funds flow from operations of approximately $2.9 million for the quarter. The Company spent $8.7 million on exploration and development capital which was funded by the funds flow from operations along with the existing cash position. Net loss in the first quarter of $2.1 million was incurred upon recognition of $0.6 million of exploration and evaluation expense, $0.9 million of impairment charges, $0.4 million of stock based compensation expense and $3.2 million of depletion and depreciation expense.

Segmented Information

	Three months ended	
	March 31, 2012	March 31, 2011
Petroleum and natural gas revenue		
Canada	**$ 378,142**	$ 478,117
Turkey	**6,432,042**	84,015
	6,810,184	562,132
Net income (loss)		
Canada[1]	**(3,006,009)**	(2,788,669)
Turkey	**665,869**	(1,473,340)
	(2,340,140)	(4,262,009)
Capital expenditures		
Canada	**192,282**	(58,428)
Turkey	**8,495,655**	4,256,390
	$ 8,687,937	$ 4,197,962
Total assets		
Canada	**31,440,325**	112,634,866
Turkey	**90,691,300**	9,196,364
	$ 122,131,625	$ 121,831,230

[1] The majority of the Company's G&A expense is charged to Canada which may change in the future.

Commitments and Contractual Obligations

On May 4, 2011, the Company completed a farm-in to earn a 100 percent working interest on License 4201 (Marhat farm-in) in the Thrace Basin. The license requires a commitment to drill two wells at a cost of approximately US$3.0 million. The Company drilled the first well, Dagdere-1, in the February 2012 for a total cost of approximately US$1.4 million. The remaining estimated commitment is US$1.6 million.

On June 13, 2011, the Company completed a farm-in to earn a 50 percent working interest in Licenses 4094 and 4532 (TransAtlantic farm-in) in the Thrace Basin. The combined licenses require the commitment to drill two wells and spend approximately US$3.0 million on seismic. The Company drilled the first well, Evrenbey-1, in November 2011 and plans to initiate the seismic program in 2012. The remaining estimated commitment is US$4.0 to US$4.5 million.

The ultimate recovery of plant, property and equipment and exploration and evaluation costs in Turkey is dependent upon the Company fulfilling its obligations outlined above and upon the existence and commercial exploitation of petroleum and natural gas reserves on undeveloped lands. Uncertainties affect the recoverability of costs as this recovery is dependent upon the Company obtaining government approvals, obtaining and maintaining licenses in good standing and achieving commercial production.

On August 31, 2011, the Company entered into a sublease agreement for office space commencing on November 1, 2011. The total amount committed under this sublease is approximately $425,000 which includes an estimate for operating costs over the term of the lease.

Subsequent Event

On April 3, 2012, the Company received $100,000 from a third party as payment for an option to farm-in on certain Saskatchewan lands prospective for helium.

New Accounting Pronouncements and Policies

Use of estimates and judgments

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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the annual consolidated financial statements include:

- Capital expenditures are based on estimates of projects in various stages of completion.
- Revenues, royalties, operating expenses and current taxes include accruals based on estimates of management.

- Impairment testing includes estimates of reserves, future commodity prices, future costs, production profiles, discount rates and the market value of undeveloped land.
- The future recoverable value of capital assets and exploration and evaluation assets are based on estimates that Valeura expects to realize.
- Depletion, depreciation and accretion includes estimates of oil and natural gas reserves, including future prices, costs and the reserve base to use in the calculation of depletion.
- Decommissioning obligations includes estimates relating to amounts, likelihood, timing, inflation and discount rates.
- Stock-based compensation includes forfeiture rates and share price volatility and is determined using accepted fair value approaches which rely on historical data and certain estimates made by management.
- Deferred tax expense – estimates relating to the reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.

Recent accounting standards and interpretations issued but not yet effective

- IFRS 10 – "Consolidated Financial Statements" builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company.
- IFRS 11 – "Joint Arrangements" establishes the principles for financial reporting by entities when they have an interest in jointly controlled operations.
- IFRS 12 – "Disclosure of Interest in Other Entities" provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.
- IFRS 13 – "Fair Value Measurement" defines fair value and requires disclosure about fair value measurements.

The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2011 and ending on March 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2012.

Financial Instruments

Financial instruments of the Company include 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 participants in the Canadian and international oil and gas industries. These risks have not materially changed from December 31, 2011. The reader is referred to Valeura's December 31, 2011 audited consolidated financial statements and MD&A for a description of these risks.