valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 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 August 13, 2012 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the periods ended June 30, 2012 and 2011. 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. The unaudited condensed interim financial statements 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 supplemental non-IFRS measures to assist in evaluating 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; and, development and exploration plans and expenditures for the Company's Turkish operations, including any additional expenditures and timing associated with farm-in lands. 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 General Directorate of Petroleum Affairs of the Republic of Turkey ("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.

Highlights and Selected Financial Information

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Financial				
Petroleum and natural gas sales	**$ 6,863,658**	$ 2,707,193	**$ 13,673,842**	$ 3,269,325
Net loss	**(751,793)**	(4,359,006)	**(3,091,933)**	(8,621,015)
Per share, basic and diluted	**(0.02)**	(0.17)	**(0.07)**	(0.37)
Funds flow from operations[1]	**3,373,244**	(1,622,240)	**6,312,163**	(3,546,565)
Per share, basic and diluted	**$ 0.07**	$ (0.06)	**$ 0.14**	$ (0.15)
Production volumes				
Crude oil and NGL's (bbl/d)	**73**	57	**66**	55
Natural gas (Mcf/d)	**7,605**	3,810	**8,340**	2,219
Total (boe/d)	**1,340**	692	**1,456**	425
Sales prices				
Crude oil (per bbl)	**$ 75.19**	$ 82.20	**$ 81.03**	$ 76.35
Natural gas (per Mcf)	**9.20**	6.68	**8.37**	6.36
Total (per boe)	**56.28**	43.02	**51.61**	42.50
Capital expenditures	**$ 10,693,264**	$ 55,650,606	**19,381,201**	59,848,568
Net working capital surplus			**16,853,064**	37,101,075
Cash and cash equivalents			**18,338,379**	32,504,845
Weighted average shares outstanding[2]				
Basic and diluted	**46,406,135**	26,283,585	**46,406,135**	23,093,366

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 and six months ended June 30, 2012 does not increase for the purpose of calculating funds flow from operations per share.
2. 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 June 30, 2012 and August 13, 2012[3]	
Common shares	46,406,135
Warrants[4]	13,269,217
Stock options	3,259,000
Performance warrants	2,796,750
Diluted	65,731,102

3. After giving effect to the 10:1 share consolidation effective September 15, 2011.
4. 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 that time. The Company now holds an interest in approximately 2.3 million gross acres (0.94 million net) in the Thrace Basin of northwest Turkey and the Anatolian Basin of southeast Turkey. The assets in the Thrace Basin include a 40 percent interest in an established shallow gas production and marketing business and a large acreage position with exposure to a potentially significant tight gas resource play below the existing shallow gas production. The assets in the Anatolian Basin include eight exploration licenses with conventional and unconventional oil potential.

Turkish Operations

Thrace Basin

Edirne Asset Acquisition

The Company closed its first acquisition in the Thrace Basin with the purchase of natural gas assets 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.

The total 2012 capital program for the Edirne license is expected to be approximately $1.0 million and will be funded by cash on hand and funds flow from operations.

TBNG-PTI Asset Acquisition

On June 8, 2011, the Company closed its second acquisition of producing natural gas assets and lands in the Thrace Basin and interests in exploration lands in the Anatolian Basin (Gaziantep area) of southeast Turkey owned by Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Pinnacle Turkey Inc. ("PTI") 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 provided 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 licenses, of which two licenses are entirely on land and three licenses 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 from approximately 190 wells on the TBNG-PTI lands, 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 owned facilities and is distributed in an owned 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, Teslimkoy and Kesan formations down to depths of approximately 3,700 meters. The Company has had an active program of re-entering selected existing medium-depth wells and fracturing selected sandstone units as part of a proof-of-concept exploitation program. The Company completed re-entry fractures on 20 existing wells during the period July 1, 2011 to June 30, 2012. Starting in early 2012, the Company also spud 14 wells on the TBNG-PTI lands including seven unconventional deep wells to a maximum depth of 3,755 meters, which are in various stages of completion, evaluation and fracturing.

The total 2012 capital program for the TBNG lands is expected to be $21 to $25 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 February 2012 for a total cost of approximately US$1.4 million. The Dagdere-1 well was cased as a potential gas well and remains suspended and is a potential frac candidate in 2013. 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 2013. The Evrenbey-1 well was cased as a potential gas well and remains suspended and is a potential frac candidate in 2013. The remaining estimated commitment is US$4.0 to US$4.5 million.

On January 16, 2012, Valeura closed the 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. The Company is currently participating in the acquisition of new 2D seismic on all three licenses and plans to participate in the deepening of an existing well Copkoy-1 which produced small amounts of gas on earlier tests.

The total 2012 capital program on the Thrace Basin farm-in lands including the January 16, 2012 acquisition is expected to be approximately $5 to $6 million and will be funded by cash on hand and funds flow from 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. On June 18, 2012, the Company announced that it had been awarded the Rubai license (Bostanci License 4985) on a 100 percent interest basis. Under a pre-bidding arrangement, Exile Resources Inc. ("Exile") has a right to a 50 percent participating interest. Exile was recently acquired by Oando Energy Resources Inc. under a reverse takeover arrangement and now trades on the TSX.

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.

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. The well is a potential candidate for a fracture stimulation treatment.

Valeura was also awarded License 5052 in the Karakilise area on a 100 percent interest basis in June 2012.

The Company plans to acquire additional 2D seismic on License 2677 in 2012.

TBNG-PTI Asset Acquisition

The TBNG-PTI acquisition described above also included lands in the Gaziantep area in the Anatolian Basin. The lands include four exploration licenses covering an area of 488,070 gross acres (126,898 net). In July 2012, the Company participated in re-entering a small Mardin Group oil discovery at the Alibey-1 well and drilling a new horizontal sidetrack of approximately 300 metres in length within the Mardin. The Alibey-1 well has been cased with a liner and is currently being evaluated.

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.

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;
- Continuing to optimize 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 Corporation has reduced its outlook for capital expenditures in 2012 by approximately $5 million to a range of $30 to $35 million. This reflects some reduction in shallow gas drilling and deferral of additional 3D seismic and some deeper drilling on the TBNG lands to 2013 and a renewed focus on optimizing production operations, clearing the backlog of completions and fractures and taking stock of the "proof-of-concept" results to date to guide the go-forward program. Cash and cash equivalents on hand and targeted cash flow 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 Corporation. The Corporation is now targeting to complete up to 18 well re-entry fractures (gross) on the TBNG-PTI lands in 2012, including 12 completed to the end of June 2012. The Company is also targeting to drill 11 to 14 deep unconventional wells (gross) in 2012 at depths ranging from 1,500 metres to 3,755 metres in the Mezardere, Teslimkoy and Kesan units, including seven drilled to date, and for planning purposes, stimulating each of these with at least a single stage frac.

With respect to the shallow gas business on the TBNG-PTI lands, the revised 2012 budget outlook includes up to 32 recompletion workovers (gross), including 14 completed to date. The Company is budgeting to drill 8 to 12 conventional shallow gas wells (gross) in 2012, including seven drilled to date.

The planned acquisition of an additional 260 km^2 of 3D seismic and 50 km of 2D seismic on the TBNG-PTI lands has been deferred to early 2013. This program is designed to expand the prospect and lead inventory in both shallow and deep formations in the Osmanli area.

On the new farm-in lands in the Thrace Basin (Marhat, TransAtlantic and GYP), the Company plans to drill two wells (gross) in 2012, including the Dagdere-1 well which was drilled and cased as a potential gas well in February 2012, and to acquire approximately 185 km of 2D seismic.

Anatolian Basin

In the Anatolian Basin, the Corporation has completed the planned drilling program for 2012 which included the deepening of the Altinakar-1 well in the Karakilise area and the horizontal sidetrack in the Alibey-1 well in the Gaziantep area. In the second half of 2012, the Corporation is planning to acquire 90 to 120 km of new 2D seismic in the Karakilise area and potentially fracture the Altinakar-1 well.

Business Development

The Company was successful in acquiring, by application, two new operated licenses in the Anatolian Basin in June 2012 at Karakilise (100%) and Bostanci (50%). Each of the new licenses will need to be drilled within the first year under new licencing requirements. Seismic and drilling plans are currently being developed. The Company also continues to evaluate 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		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Petroleum and natural gas sales	**$ 6,863,658**	$ 2,707,193	**$ 13,673,842**	$ 3,269,325
Royalties	**(933,654)**	(293,904)	**(1,901,552)**	(350,184)
Production costs	**(1,085,897)**	(851,536)	**(2,184,824)**	(1,224,539)
Operating netback[1]	**4,844,107**	1,561,753	**9,587,466**	1,694,602
Other income	**103,674**	141,994	**212,917**	183,924
General and administrative	**(1,683,347)**	(1,720,289)	**(3,512,800)**	(3,208,504)
Transaction costs	**-**	(1,326,425)	**-**	(1,937,314)
Realized foreign exchange gain	**108,810**	-	**24,580**	-
Current income tax	**-**	(279,273)	**-**	(279,273)
Funds flow from operations[1]	**3,373,244**	(1,622,240)	**6,312,163**	(3,546,565)
Gain on asset disposition	**100,000**	-	**100,000**	-
Non-cash expenses				
Stock based compensation	**(492,920)**	(627,244)	**(865,130)**	(1,241,900)
Financing costs	**(165,640)**	(10,754)	**(320,410)**	(13,862)
Exploration and evaluation expense	**(560,567)**	(902,470)	**(1,129,962)**	(2,280,120)
Unrealized foreign exchange gain (loss)	**(22,358)**	158,667	**206,668**	44,663
Depletion and depreciation	**(2,899,607)**	(1,652,325)	**(6,140,148)**	(1,880,591)
Impairment	**-**	-	**(888,000)**	-
Deferred tax recovery (expense)	**(83,945)**	297,360	**(367,114)**	297,360
Net loss	**$ (751,793)**	$ (4,359,006)	**$ (3,091,933)**	$ (8,621,015)

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

Corporate Sales Volumes

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Crude oil and NGLs (bbl/d)	**73**	57	**66**	55
Natural gas (Mcf/d)	**7,605**	3,810	**8,340**	2,219
Total (boe/d)	**1,340**	692	**1,456**	425
Turkey (boe/d)	**1,273**	563	**1,388**	294
Canada (boe/d)	**67**	129	**68**	131
Total (boe/d)	**1,340**	692	**1,456**	425

Average sales volumes for the three and six months ended June 30, 2012 increased significantly to 1,340 boe/d and 1,456 boe/d, respectively, compared to 692 boe/d and 425 boe/d, respectively, for the same periods in 2011. The increase is a result of the TBNG-PTI asset acquisition in Turkey which closed on June 8, 2011. Turkey comprises 95 percent of Valeura's total production. The majority of production in Turkey is natural gas from the Thrace Basin.

Corporate Operating Netbacks (per boe)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Petroleum and natural gas sales	**$ 56.28**	$ 43.02	**$ 51.61**	$ 42.50
Royalties	**(7.66)**	(4.67)	**(7.18)**	(4.55)
Production costs	**(8.90)**	(13.53)	**(8.25)**	(15.92)
Operating netback	**$ 39.72**	$ 24.82	**$ 36.18**	$ 22.03

Sales Volumes and Operating Income – Turkey Operations

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Natural gas (Mcf/d)	**7,467**	3,374	**8,191**	1,763
Crude oil (bbl/d)	**28**	-	**22**	-
Total (boe/d)	**1,273**	563	**1,388**	294
Operating income:				
Petroleum and natural gas sales	**$ 6,573,522**	$ 2,164,781	**$ 13,005,564**	$ 2,248,796
Royalties	**(879,164)**	(283,174)	**(1,743,780)**	(293,676)
Production costs	**(864,338)**	(532,020)	**(1,773,802)**	(565,344)
Operating income	**$ 4,830,020**	$ 1,349,587	**$ 9,487,982**	$ 1,389,776

Operating Netbacks (per boe) – Turkey Operations

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Petroleum and natural gas sales	**$ 56.75**	$ 42.30	**$ 51.51**	$ 42.29
Royalties	**(7.59)**	(5.53)	**(6.91)**	(5.52)
Production costs	**(7.46)**	(10.40)	**(7.02)**	(10.63)
Operating netback (per boe)	**$ 41.70**	$ 26.37	**$ 37.58**	$ 26.14

Pricing Information

	Three months ended		Six months ended	
Average benchmark prices	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Crude oil – Edmonton Light (per bbl)	**$ 83.92**	$ 103.07	**$ 88.05**	$ 95.11
Natural gas – BOTAS (per Mcf)[1]	**TL 18.23**	TL 13.21	**TL 16.71**	TL 13.21
Natural gas – BOTAS (per Mcf)	**$ 10.20**	$ 8.18	**$ 9.34**	$ 8.22
Average exchange rate (TL/CAD)	**1.7867**	1.6142	**1.7898**	1.6070
Valeura's average realized prices				
Crude oil (per bbl)	**$ 75.19**	$ 82.20	**$ 81.03**	$ 76.35
Natural gas – Turkey (per Mcf)	**$ 9.34**	$ 7.05	**$ 8.48**	$ 7.05
Natural gas – consolidated (per Mcf)	**$ 9.20**	$ 6.68	**$ 8.37**	$ 6.36

The following table shows the percentage change in Valeura's realized prices for Q2 2012 and YTD 2012 when compared with Q2 2011 and YTD 2011:

	Q2 2012	**YTD 2012**
Crude oil	-9%	6%
Natural gas	38%	32%

Natural gas prices remain much stronger in Turkey when compared with Canada. With approximately 93 percent of Valeura's current production coming from natural gas in Turkey, the Company has positioned itself to take advantage of Turkey's higher natural gas prices. Natural gas prices under sales contracts for all production in the 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. Effective April 1, 2012, the BOTAS reference price was increased a further 20 percent which resulted in an effective Canadian dollar converted reference price of $10.20 per Mcf for Q2 2012. All natural gas sales in the Edirne field are delivered to the BOTAS pipeline and sold to a large wholesale buyer while sales on the TBNG-PTI lands are under direct sales contracts to industrial buyers in the area at prices referenced to the BOTAS price. All natural gas sales contracts in the Thrace Basin reflect a negotiated discount to the BOTAS reference price.

Average realized natural gas prices in Turkey for Q2 2012 increased by 32 percent from $9.34 per Mcf compared to $7.05 per Mcf in the same period in 2011 due to the increase in the BOTAS reference price in Q4 2011 and Q2 2012 and reduced discounts to the BOTAS price for direct sales contracts effective January 1, 2012. The slight

[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.

strengthening of the Turkish Lira against the Canadian Dollar in Q2 2012 also contributed to this increase in realized prices. Average realized natural gas prices for the three months ended June 30, 2012 in Turkey of $9.34 per Mcf reflects an average discount of nine percent to the BOTAS reference price (eight percent – Q1 2012).

Petroleum and Natural Gas Sales Revenues

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Revenues by product				
Crude oil and NGLs	**$ 495,582**	$ 390,613	**$ 973,930**	$ 713,780
Natural gas	**6,368,076**	2,316,580	**12,699,912**	2,555,545
Total revenues	**$ 6,863,658**	$ 2,707,193	**$ 13,673,842**	$ 3,269,325

The composition of petroleum and natural gas sales revenues for the three and six months ended June 30, 2012 was 93 percent natural gas and 7 percent crude oil and NGLs. The increase in 2012 revenues when compared to the same periods in 2011 is primarily due to the addition of natural gas production in Turkey from the TBNG-PTI asset acquisition which closed on June 8, 2011.

Royalties

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Royalties	**$ 933,654**	$ 293,904	**$ 1,901,552**	$ 350,184
Percentage of revenue	**13.6%**	10.9%	**13.9%**	10.7%

Royalties increased for the three and six months ended June 30, 2012 when compared to the same periods 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.

Production Costs

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Production costs	**$ 1,085,897**	$ 851,536	**$ 2,184,824**	$ 1,224,539
$ per boe	**8.90**	13.53	**8.25**	15.92

Overall productions costs increased for the three and six months ended June 30, 2012 when compared to the same periods in 2011 due to the addition of production from the Thrace Basin assets in Turkey. Unit costs decreased to $8.90/boe in Q2 2012 from $13.53/boe in Q2 2011. The unit cost decrease is the direct result of the addition of lower cost natural gas operations in Turkey. For the three months and six months ended June 30, 2012, production costs in Turkey were $1.24 per Mcf ($7.46/boe) and $1.17 per Mcf ($7.02/boe) respectively.

With approximately 93 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.

General and Administrative Expenses

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
General and administrative	**$ 1,700,778**	$ 1,383,723	**$ 3,617,432**	$ 2,491,504
Business development	**143,324**	339,566	**300,532**	723,250
Total gross general and administrative expenses	**1,844,102**	1,723,289	**3,917,964**	3,214,754
Recoveries	**(160,755)**	(3,000)	**(405,164)**	(6,250)
Total net general and administrative expenses	**$ 1,683,347**	$ 1,720,289	**$ 3,512,800**	$ 3,208,504

Total net general and administrative ("G&A") costs decreased slightly in Q2 2012 when compared to Q2 2011 but increased by 9.5 percent for the six months ended June 30, 2012 when compared to the same period in 2011 due to the expansion of Turkish operations. The higher costs in the six months ended June 30, 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.

Gain on asset disposition

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.

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 and six months ended June 30, 2012 transaction costs were $nil compared to $1,326,425 and $1,937,314 respectively, for the same periods in 2011. Transaction costs in 2011 pertained to the Edirne and TBNG-PTI asset acquisitions.

Financing costs

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Accretion of decommissioning obligations	**$ 165,640**	$ 10,754	**$ 320,410**	$ 13,862

Accretion of decommissioning obligations for the three and six months ended June 30, 2012 was $165,640 and $320,410, respectively, compared to $10,754 and $13,862, respectively, for the same periods 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 foreign exchange gain of $86,452 and $231,248, respectively, for the three and six months ended June 30, 2012. The Q2 2012 foreign exchange gain is comprised of an unrealized foreign exchange loss of $22,358 and a realized foreign exchange gain of $108,810. The Company incurred unrealized foreign exchange gains of $158,667 and $44,663, respectively, for the three and six months ended June 30, 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. 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.

Other Income

During the three and six months ended June 30, 2012, the Company recorded other income of $103,674 and $212,917, respectively, compared to $141,994 and $183,924, respectively, for the same periods in 2011. Other income is comprised of interest income related to cash on hand. The increase for the six months ended June 30, 2012 is attributed to higher average cash levels in 2012 in comparison to 2011.

Income Taxes

During the three and six months ended June 30, 2012, the Company did not have any current income tax expense. Capital spending and utilization of tax pools in the second quarter of 2012 was sufficient to offset income earned during the quarter.

Funds Flow from Operations

Funds flow from operations for the three and six months ended June 30, 2012 was $3,373,244 and $6,312,163, respectively, compared to ($1,622,240) and ($3,546,565), respectively, for the same periods in 2011. The increased funds flow from operations for the three and six months ended June 30, 2012 is the result of increased production from the acquired assets in the Thrace Basin in Turkey partially offset by higher general and administrative costs associated with the increased scope of 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 certain other service providers of the Company.

Stock-based compensation expense for the three and six months ended June 30, 2012 was $492,920 and $865,130, respectively, compared to $627,244 and $1,241,900, respectively, for the same periods in 2011. Performance warrants issued in 2010 attracted a higher amount of stock-based compensation expense in the prior periods due to accelerated amortization under IFRS.

Exploration and Evaluation Expense

Exploration and evaluation expense consists of exploration projects that are deemed to have a lower fair value when compared to book value. Exploration and evaluation expense for the three and six months ended June 30, 2012 was $560,567 and $1,129,962, respectively, compared to $902,470 and $2,280,120, respectively, for the same periods in 2011. The exploration and evaluation expense for 2012 consists of expenditures for two shallow gas dry holes drilled on the TBNG-PTI lands at Guney Osmanli-2 (spudded in December 2011) and Dogu Gazi-2. Of the eight shallow gas wells that completed drilling in the first six months of 2012, six were successful (75 percent success rate). All of the eight deep wells that completed drilling on the TBNG-PTI lands as of the date of this MD&A (including one well that spudded in December 2011) have been cased as potential gas wells.

Depletion and Depreciation

Depletion and depreciation for the three and six months ended June 30, 2012 was $2,899,607 and $6,140,148, respectively, compared to $1,652,325 and $1,880,591, respectively, for the same periods 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 and six months ended June 30, 2012 was $23.78/boe and $23.06/boe, respectively, compared to $26.26/boe and $24.44/boe, respectively, for the same periods in 2011. These relatively high depletion and depreciation rates reflect the large proportion of high decline rate shallow gas production in the Company's portfolio. Over time, the Company expects to see these rates decline as deeper, longer life tight gas reserves are developed.

Impairment

Impairment for the three and six months ended June 30, 2012 was $nil and $888,000, respectively, compared to $nil for the same periods in 2011. Impairment in 2012 relates to a reduction in fair value of the Canadian assets due to decreased Canadian natural gas prices in the first quarter of 2012 and a more pessimistic outlook for the timing of an anticipated rebound in natural gas prices.

Deferred Tax

Deferred tax expense for the three and six months ended June 30, 2012 was $83,945 and $367,114, respectively, compared to a deferred tax recovery of $297,360 for the three and six months ended June 30, 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 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.

AOCI for the three and six months ended June 30, 2012 was $511,694 and $2,691,094, respectively, and is related to the increase in value of the Turkish Lira when compared to the Canadian Dollar throughout the first six months of 2012. This compares to a currency translation loss of $1,576,323 and 1,576,636, respectively, during the three and six months ended June 30, 2011.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Six months ended	
Turkey	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Geological and geophysical	**$ 1,554,161**	$ 78,667	**$ 1,756,103**	$ 196,467
Land	**-**	-	**1,553,726**	-
Drilling and completions	**7,838,070**	1,800,898	**12,873,963**	3,993,038
Equipping	**88,560**	-	**211,647**	-
Recompletions and fractures	**1,204,315**	-	**2,783,356**	-
Other	**-**	-	**1,966**	-
Asset acquisitions	**-**	53,724,623	**-**	55,671,073
Turkey total	**10,685,106**	55,604,188	**19,180,761**	59,860,578
Canada total	**8,158**	46,418	**200,440**	(12,010)
Consolidated total	**$ 10,693,264**	$ 55,650,606	**$ 19,381,201**	$ 59,848,568

Turkey

Capital spending of approximately $10.7 million in Q2 2012 was comprised primarily of exploration and development capital in Turkey.

Thrace Basin

The second quarter of 2012 was an active quarter for drilling with the Company spudding 14 wells (5.55 net) which targeted natural gas in the Thrace Basin. A total of 13 wells (5.2 net) were drilled on TBNG-PTI lands while the other well (0.35 net) was drilled on the Edirne License.

Of the 13 wells (5.2 net) on the TBNG-PTI lands three wells (1.2 net) were completed and are on production; three wells (1.2 net) were under completion operations; four wells (1.6 net) were cased as potential gas wells; one well (0.4 net) was drilled and abandoned; and two wells (0.8 net) were drilling. The Edirne well (0.35 net) was drilled and cased as a potential gas well and was subsequently put on production in July 2012.

In the second quarter of 2012, the Company completed fractures on three new unconventional deep wells and two existing wells (2.0 net) on the TBNG-PTI lands, and six recompletion workovers (2.4 net) on existing conventional shallow gas wells on the TBNG-PTI lands. Two workovers were also completed on shallow gas wells on the Edirne License.

Liquidity, Financing and Capital Resources

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Opening cash position	**$ 22,299,882**	$ 9,737,280	**$ 24,106,718**	$ 19,460,311
Inflow of funds				
Issuance of shares – net of share issue costs	**-**	82,942,776	**-**	81,066,022
Proceeds on asset disposition	**100,000**	-	**100,000**	-
Funds from operations	**3,373,244**	-	**6,312,163**	-
	3,473,244	82,942,776	**6,412,163**	81,066,022
Outflow of funds				
Funds from operations	**-**	(1,622,240)	**-**	(3,546,565)
Capital expenditures	**(10,693,264)**	(55,650,606)	**(19,381,201)**	(59,848,568)
Decommissioning costs incurred	**-**	(54,124)	**(2,184)**	(54,124)
Changes in working capital and foreign exchange on cash	**3,258,517**	(2,848,241)	**7,202,883**	(4,572,231)
	(7,434,747)	(60,175,211)	**(12,180,502)**	(68,021,488)
Closing cash position	**$ 18,338,379**	$ 32,504,845	**$ 18,338,379**	$ 32,504,845

Capital Funding and Resources

As at June 30, 2012, Valeura's working capital balance was $16,853,064 including a cash position of $18,338,379.

The Company's cash position and funds flow from operations are the primary sources of capital for exploration and development expenditures in 2012. Valeura's opening cash position in 2012 was $24,106,718. In the first six months of 2012, the Company utilized this opening cash balance and funds flow from operations of $6,312,163 to fund an exploration and development capital program of $19,381,201 and incurred decommissioning costs of $2,184. The resultant cash and cash equivalents balance at June 30, 2012 is $18,338,379.

Financial Capacity

At the end of Q2 2012, the Company's working capital position was approximately $16.9 million. The combination of Valeura's 2012 opening working capital surplus of approximately $29.4 million plus estimated 2012 operating cash flow after G&A of $12 to $15 million is sufficient to fund an estimated capital program of $30 to $35 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 borrowing capacity will increase with continued expansion of its production operations in Turkey and anticipated increases in reserves. In the future, if the Company borrows on a bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations 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
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Total daily production (boe/d)	1,340	1,572	1,856	1,635
Average wellhead price ($/boe)	56.28	47.62	44.61	38.81
Petroleum and natural gas sales	$ 6,863,658	$ 6,810,184	$ 7,619,255	$ 5,836,765
Funds from operations	3,373,244	2,938,919	4,084,943	1,983,189
$ per share (basic and diluted)[1]	0.07	0.06	0.09	0.04
Net loss	(751,793)	(2,340,140)	(3,406,130)	(3,749,286)
$ per share (basic and diluted)[1]	(0.02)	(0.05)	(0.07)	(0.08)

				Three months ended
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Total daily production (boe/d)	692	156	193	243
Average wellhead price ($/boe)	43.02	40.13	38.63	35.54
Petroleum and natural gas sales	$ 2,707,193	$ 562,132	$ 686,098	$ 794,215
Funds from operations	(1,622,240)	(1,924,325)	(879,447)	(666,787)
$ per share (basic and diluted)[1]	(0.06)	(0.10)	(0.04)	(0.03)
Net loss	(4,359,006)	(4,262,009)	(3,350,588)	(3,171,965)
$ per share (basic and diluted)[1]	(0.17)	(0.21)	(0.17)	(0.16)

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 does not increase for the purpose of calculating funds flow from operations per share in the three and six months ended June 30, 2012.

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 foreign exchange gain in Q2 2012 was $86,452 while the currency translation gain recorded in accumulated other comprehensive income was $511,694. The currency translation gain for the three months ended June 30, 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 $nil on its Canadian operations and exploration expense of $560,567 on its Turkish operations for the three months ended June 30, 2012. The exploration and evaluation expense consists of two dry holes drilled on the TBNG lands.

Segmented Information

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Petroleum and natural gas revenue				
Canada	**$ 290,135**	$ 539,650	**$ 668,277**	$ 1,017,767
Turkey	**6,573,523**	2,167,543	**13,005,565**	2,251,558
	6,863,658	2,707,193	**13,673,842**	3,269,325
Net loss				
Canada[1]	**(1,452,502)**	(3,176,843)	**(4,458,511)**	(5,965,512)
Turkey	**700,709**	(1,182,163)	**1,366,578**	(2,655,503)
	(751,793)	(4,359,006)	**(3,091,933)**	(8,621,015)
Capital expenditures				
Canada	**8,158**	46,417	**200,440**	(12,010)
Turkey	**10,685,106**	55,604,189	**19,180,761**	59,860,578
	$ 10,693,264	$ 55,650,606	**$ 19,381,201**	$ 59,848,568
Total assets				
Canada			**29,433,362**	47,652,462
Turkey			**95,515,814**	80,191,056
			$ 124,949,176	$ 127,843,518

Commitments and Contractual Obligations

On May 4, 2011, the Company entered into a farm-in agreement to earn a 100 percent working interest in 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 February 2012 for a total cost of approximately US$1.4 million. The Dagdere-1 well was cased as a potential gas well and remains suspended and is a potential frac candidate in 2013. The remaining estimated commitment is US$1.6 million.

On June 13, 2011, the Company entered into a farm-in agreement 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 2013. The Evrenbey-1 well was cased as a potential gas well and is a potential frac candidate in 2013. The remaining estimated commitment is US$4.0 to US$4.5 million.

On August 31, 2011, the Company entered into a two-year 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 June 11, 2012, the Company entered into an agreement with a third party to dispose of certain non-core assets in Canada for $100,000 with an effective date of March 1, 2012. On July 18, 2012, the Company closed the disposition agreement and received approximately $89,000 after closing adjustments.

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

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, 2012 and ending on June 30, 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 June 30, 2012 other than those previously disclosed under commitments.

Financial Instruments

Financial instruments of the Company include cash and cash equivalents, 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, MD&A and annual information form for a description of these risks.