valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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 November 13, 2012 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the periods ended September 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-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "operating netback" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "funds flow from operations" (net loss for the period adjusted for non-cash items) are not GAAP measures and do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuer's. The closest GAAP measure to operating netback and funds flow from operations is net loss – see the reconciliation of these non-GAAP financial measures to net loss under "Results of Operations". The Company uses these supplemental non-GAAP 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", "target" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, 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 expenditures for the planned tight gas development in the Thrace Basin and any additional expenditures and timing associated with farm-in lands, and the funding thereof. 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 ability of the Company to manage water production; results of future seismic programs; 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 know and unknown 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. Exploration, appraisal, and development of oil and natural gas reserves are speculative activities and involve a significant degree of risk. A number of factors could cause actual results to differ materially from those anticipated by the Corporation including, but not limited to: risks associated with the oil and gas industry (e.g. operational risks in exploration, inherent uncertainties in interpreting geological data, and changes in plans with respect to exploration or capital expenditures, the uncertainty of estimates and projections in relation to costs and expenses, and health, safety, and environmental risks); uncertainty regarding the sustainability of initial production rates and decline rates thereafter; uncertainty regarding the ability to address technical drilling challenges and manage water production; uncertainty regarding the state of capital markets and the availability of future financings; the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues, terrorist attacks, insurgencies or civil unrest (particularly in the southeastern part of Turkey); the risks of increased costs and delays in timing related to protecting the safety and security of Valeura's personnel and property; the risk of commodity and BOTAS pricing and foreign exchange rate fluctuations; the uncertainty associated with negotiating with third parties in countries other than Canada; the risk of partners having different views on work programs and potential disputes among partners; the uncertainty regarding government and other approvals; risks associated with weather delays and natural disasters; and, the risk associated with international activity. See Valeura's Annual Information Form for a detailed discussion of the risk factors.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement.

Highlights and Selected Financial Information

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Financial				
Petroleum and natural gas sales	**$ 5,858,805**	$ 5,836,765	**$ 19,532,647**	$ 9,106,090
Net loss	**(702,174)**	(3,749,286)	**(3,794,107)**	(12,370,302)
Per share, basic and diluted	**(0.02)**	(0.08)	**(0.08)**	(0.40)
Funds flow from operations[1]	**2,803,187**	1,983,189	**9,115,350**	(1,563,376)
Per share, basic and diluted	**$ 0.06**	$ 0.04	**$ 0.20**	$ (0.05)
Production volumes				
Crude oil and NGL's (bbl/d)	**58**	68	**63**	59
Natural gas (Mcf/d)	**6,489**	9,401	**7,718**	4,639
Total (boe/d)	**1,140**	1,635	**1,350**	833
Sales prices				
Crude oil (per bbl)	**$ 78.61**	$ 70.91	**$ 80.31**	$ 74.23
Natural gas (per Mcf)	**9.12**	6.27	**8.58**	6.30
Total (per boe)	**55.88**	38.81	**52.82**	40.06
Capital expenditures	**$ 5,642,479**	$ 7,843,249	**$ 25,023,680**	$ 67,691,817
Net working capital surplus			**13,992,137**	30,852,304
Cash and cash equivalents			**15,578,759**	33,190,894
Weighted average shares outstanding[2]				
Basic and diluted	**46,406,135**	46,406,135	**46,406,135**	30,949,684

Outstanding Share Data[3]

	November 13, 2012	September 30, 2012
Common shares	57,906,135	46,406,135
Warrants[4]	13,269,217	13,269,217
Stock options	3,379,000	3,379,000
Performance warrants	2,796,750	2,796,750
Diluted	77,351,102	65,851,102

On September 17, 2012, the Company entered into an agreement with a syndicate of underwriters to purchase, on a "bought deal" basis, 11.5 million common shares of Valeura (see Subsequent Events). The public offering of common shares closed on October 10, 2012.

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.
2. After 10:1 share consolidation effective September 15, 2011. The weighted average number of common shares outstanding is not increased for outstanding stock options and warrants when the effect is anti-dilutive.
3. After 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 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, including a successful well drilled in the second quarter, 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 130 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 1,800 to 3,700 meters, depending on the area. The Company has had an active program of re-entering selected existing medium-depth wells to fracture stimulate ("frac") selected sandstone units as part of a proof-of-concept exploitation program. The Company completed re-entry fracs on 23 existing wells during the period July 1, 2011 to September 30, 2012. The Company also spudded 16 wells on the TBNG-PTI lands in 2012 to the end of September, including eight unconventional tight gas wells to a maximum depth of 3,755 meters. Four of these new unconventional wells are currently on production and the other four wells are in various stages of completion and evaluation.

The total 2012 capital program for the TBNG-PTI lands is expected to be $21 to $23 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 owned by Marhat Marmara Boru Hatlari Ins. Muh Taahh.san.Tic.Ltd.sti. ("Marhat") (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 owned by an affiliate of TransAtlantic (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 of Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") in three exploration licenses (3998, 3999 and 4187) in the Thrace Basin for consideration of US$1.5 million. The licenses are operated by Merty Energy. The Company participated in the acquisition of 186 kilometres of new 2D seismic on License 3999 in the third quarter of 2012 and spudded the Kavacik-1 well on this license.

The total 2012 capital program on the Thrace Basin farm-in lands including the January 16, 2012 acquisition is expected to be approximately $5 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 GYP for a minimum consideration of US$8.8 million (Phase I) and a maximum consideration of US$17.6 million (Phase I plus 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, Oando Energy Resources Inc. ("Oando") (formerly Exile Resources Inc.) has a right to a non-operated 50 percent participating interest. The transfer of a working interest to Oando requires GDPA approval.

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 Licenses 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 on License 2674 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. The well was subsequently cased and produced at rates of approximately 10 to 13 barrels of oil per day ("bopd"). The well was frac'd in early September but it was unsuccessful in improving oil productivity on a sustained basis.

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

The Company participated in the acquisition of 82 kilometres of new 2D seismic on License 2677 in the third quarter of 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 heavy oil discovery at the Alibey-1 well on License 4607 and drilling a new horizontal sidetrack of approximately 414 metres in length within the Mardin. The horizontal sidetrack was cased with a liner and is expected to be completed and tested in the fourth quarter of 2012.

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 Company's outlook for capital expenditures in 2012 is in the range of $30 to $32 million, of which $5 to $7 million is expected to be spent in the fourth quarter. This reflects continuing with a two-rig program in the Thrace Basin in the fourth quarter and the return of the frac spread to the Thrace Basin in early December.

The 2013 work program and capital budget remains under development with partners.

Thrace Basin

The proof-of-concept program to de-risk the tight gas play in the Thrace Basin has continued to make encouraging progress. The Company expects to complete up to 18 well re-entry fracs (gross) on the TBNG-PTI lands in 2012, including 15 completed to September 30.

The Company is also targeting to spud 11 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 eight spudded to September 30, and for planning purposes, stimulating each of these with at least a single stage frac. In the fourth quarter, the Company expects to frac certain encouraging intervals in the deeper sections of Baglik-1 and Kayi Derin-1 wells, which were drilled to depths of 3,594 to 3,755 metres in 2012.

TransAtlantic, the operator of the TBNG-PTI lands, has announced plans for an initial 88-well development program for the Tekirdag field area targeting unconventional tight gas, which is expected to begin late in the fourth quarter of 2012 (or early in the first quarter of 2013) and extend into 2015 utilizing two drilling rigs. The Tekirdag field and surrounding area has been a key focus of the tight gas proof-of-concept program where the Company and its partners acquired more than 200 square kilometres of new 3D seismic, carried out extensive core analysis and other technical evaluations, spudded four new deep exploration wells and frac'd 15 new and existing wells to build a knowledge base and to position this planned development program.

With respect to the shallow gas business on the TBNG-PTI lands, the 2012 budget outlook includes up to 35 recompletion workovers (gross), including 26 completed to September 30. The Company is budgeting to drill 10 conventional shallow gas wells (gross) in 2012, including eight spudded to September 30.

The pace of the program to manage water production from both shallow and deep wells on the TBNG-PTI lands is accelerating. A coiled tubing unit was commissioned in September to carry out a prioritized program to clean out those wellbores loaded with water that is negatively impacting natural gas flow rates. A program also commenced in late October to equip selected wells with plunger lift pumps to lift produced water on a continuous basis. It is expected that this program will be expanded with other forms of pumping equipment in the fourth quarter.

Anatolian Basin

In the Anatolian Basin, the Company expects to complete and flow test the horizontal sidetrack in the Alibey-1 well (Valeura 26%) in the Gaziantep area. This 414 metre sidetrack exposed more than 80 metres of horizontal porous section in the Mardin Group, which had tested heavy oil in the original vertical well.

The Company is also continuing to update its technical assessment of the Bostanci exploration prospect in License 4985 on the border with northern Iraq and Syria, and associated drilling costs, in preparation for the targeted spudding of a well late in the second quarter of 2013.

Results of Operations

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Petroleum and natural gas sales	**$ 5,858,805**	$ 5,836,765	**$ 19,532,647**	$ 9,106,090
Royalties	**(759,253)**	(765,841)	**(2,660,805)**	(1,116,025)
Production costs	**(996,156)**	(1,311,443)	**(3,180,980)**	(2,535,982)
Operating netback[1]	**4,103,396**	3,759,481	**13,690,862**	5,454,083
Other income	**107,970**	101,109	**320,887**	285,033
General and administrative	**(1,410,423)**	(1,331,660)	**(4,923,223)**	(4,540,164)
Transaction costs	-	(163,868)	**-**	(2,101,182)
Realized foreign exchange gain	**2,244**	163,513	**26,824**	163,513
Current income tax	-	(545,386)	**-**	(824,659)
Funds flow from operations[1]	**2,803,187**	1,983,189	**9,115,350**	(1,563,376)
Gain on asset disposition	**71,568**	**-**	**171,568**	-
Non-cash expenses				
Stock based compensation	**(380,465)**	(628,654)	**(1,245,595)**	(1,870,554)
Financing costs	**(154,790)**	(21,773)	**(475,200)**	(35,635)
Exploration and evaluation expense	**300**	(1,092,000)	**(1,129,662)**	(3,372,121)
Unrealized foreign exchange loss	**(279,211)**	(298,505)	**(72,543)**	(253,842)
Depletion and depreciation	**(2,462,105)**	(4,344,183)	**(8,602,253)**	(6,224,774)
Impairment	-	-	**(888,000)**	-
Deferred tax recovery (expense)	**(300,658)**	652,640	**(667,772)**	950,000
Net loss	**$ (702,174)**	$ (3,749,286)	**$ (3,794,107)**	$ (12,370,302)

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

Corporate Sales Volumes

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Crude oil and NGLs (bbl/d)	**58**	68	**63**	59
Natural gas (Mcf/d)	**6,489**	9,401	**7,718**	4,639
Total (boe/d)	**1,140**	1,635	**1,350**	833
Turkey (boe/d)	**1,079**	1,514	**1,284**	705
Canada (boe/d)	**61**	121	**66**	128
Total (boe/d)	**1,140**	1,635	**1,350**	833

Turkey currently provides approximately 95 percent of Valeura's total production, the majority of which is natural gas production in the Thrace Basin.

Average sales volumes of 1,140 boe/d for the three months ended September 30, 2012 were lower when compared to average sales volumes of 1,635 boe/d for the three months ended September 30, 2011 due to natural declines and a slowing of the drilling and frac program in the Thrace Basin in order to evaluate the results of the initial deep well drilling carried out in the second quarter. Several key wells drilled in 2012 on TBNG-PTI lands are expected to be completed and frac'd in the fourth quarter of 2012. Average sales volumes of 1,350 boe/d for the nine months ended September 30, 2012 were higher when compared to average sale volumes of 833 boe/d for the nine months ended September 30, 2011 as a result of the TBNG-PTI asset acquisition in Turkey which closed on June 8, 2011.

Corporate Operating Netbacks (per boe)

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Petroleum and natural gas sales	**$ 55.88**	$ 38.81	**$ 52.82**	$ 40.06
Royalties	**(7.24)**	(5.09)	**(7.19)**	(4.91)
Production costs	**(9.50)**	(8.72)	**(8.60)**	(11.16)
Operating netback	**$ 39.14**	$ 25.00	**$ 37.03**	$ 23.99

Sales Volumes and Operating Income – Turkey Operations

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Natural gas (Mcf/d)	**6,356**	9,080	**7,575**	4,229
Crude oil (bbl/d)	**19**	-	**21**	-
Total (boe/d)	**1,079**	1,514	**1,284**	705
Operating income:				
Petroleum and natural gas sales	**$ 5,584,486**	$ 5,320,185	**$18,590,051**	$ 7,571,743
Royalties	**(734,860)**	(710,486)	**(2,478,640)**	(1,004,163)
Production costs	**(795,521)**	(964,473)	**(2,569,323)**	(1,529,817)
Operating income	**$ 4,054,105**	$ 3,645,226	**$13,542,088**	$ 5,037,763

Operating Netbacks (per boe) – Turkey Operations

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Petroleum and natural gas sales	**$ 56.30**	$ 38.21	**$ 52.86**	$ 39.35
Royalties	**(7.41)**	(5.10)	**(7.05)**	(5.22)
Production costs	**(8.02)**	(6.93)	**(7.31)**	(7.95)
Operating netback (per boe)	**$ 40.87**	$ 26.18	**$ 38.50**	$ 26.18

Pricing Information

	Three months ended		Nine months ended	
Average benchmark prices	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Crude oil – Edmonton Light (per bbl)	**$ 84.33**	$ 91.74	**$ 86.81**	$ 94.26
Natural gas – BOTAS (per Mcf)[1]	**TL 18.23**	TL 13.21	**TL 17.22**	TL 13.21
Natural gas – BOTAS (per Mcf)	**$ 10.07**	$ 7.47	**$ 9.58**	$ 7.95
Average exchange rate (TL/CAD)	**1.8095**	1.7684	**1.7964**	1.6616
Valeura's average realized prices				
Crude oil (per bbl)	**$ 78.61**	$ 70.91	**$ 80.31**	$ 74.23
Natural gas – Turkey (per Mcf)	**$ 9.27**	$ 6.37	**$ 8.71**	$ 6.56
Natural gas – consolidated (per Mcf)	**$ 9.12**	$ 6.27	**$ 8.58**	$ 6.30

The following table shows the percentage change in Valeura's realized prices for Q3 2012 and YTD 2012 when compared with Q3 2011 and YTD 2011:

	Q3 2012	**YTD 2012**
Crude oil	11%	8%
Natural gas	45%	36%

Natural gas prices remain much stronger in Turkey when compared to 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, April 1, 2012 and October 1, 2012 the Turkish Lira natural gas reference price increased by 15 percent, 20 percent and 10 percent, respectively. This has resulted in an effective Canadian dollar converted reference price of $10.07 per Mcf for Q3 2012 and an estimated $11.15 per Mcf for Q4 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 benchmark price. All natural gas sales contracts in the Thrace Basin reflect a negotiated discount to the BOTAS benchmark price.

The Company's Q3 2012 average realized natural gas price in Turkey increased by 45 percent to $9.27 per Mcf from $6.37 per Mcf in the same period in 2011 due to increases in the BOTAS benchmark price effective October 1,

[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.

2011 (15 percent increase) and April 1, 2012 (20 percent increase), and reduced discounts to the BOTAS benchmark price for direct sales contracts effective January 1, 2012. The weakening of the Turkish Lira against the Canadian Dollar during Q3 2012 slightly reduced the realized price in Canadian Dollars in Q3 2012 compared to the prior quarter. The Company's Q3 2012 average realized natural gas prices in Turkey of $9.27 per Mcf reflects an average discount of eight percent to the BOTAS benchmark price.

Petroleum and Natural Gas Sales Revenues

	Three months ended		**Nine months ended**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Crude oil and NGLs	**$ 411,312**	$ 413,802	**$ 1,385,242**	$ 1,127,582
Natural gas	**5,447,493**	5,422,963	**18,147,405**	7,978,508
Total revenues	**$ 5,858,805**	$ 5,836,765	**$ 19,532,647**	$ 9,106,090

The composition of petroleum and natural gas sales revenues for the three and nine months ended September 30, 2012 was 93 percent natural gas and 7 percent crude oil and NGLs. Revenues for the three months ended September 30, 2012 were essentially unchanged from the same period in 2011 due to lower volumes being offset by higher prices in the current quarter. Revenues increased for the nine months ended September 30, 2012 when compared to the same period in 2011 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		**Nine months ended**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Royalties	**$ 759,253**	$ 765,841	**$ 2,660,805**	$ 1,116,025
Percentage of revenue	**13.0%**	13.1%	**13.6%**	12.3%

Royalties increased for the nine months ended September 30, 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.

Production Costs

	Three months ended		**Nine months ended**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Production costs	**$ 996,156**	$ 1,311,443	**$ 3,180,980**	$ 2,535,982
$ per boe	**9.50**	8.72	**8.60**	11.16

Overall production costs were lower in the three months ended September 30, 2012 when compared to the same period in 2011 due to lower volumes. Overall production costs increased for the nine months ended September 30, 2012 when compared to the same period in 2011 due to the addition of production from the Thrace Basin assets in Turkey. Unit costs decreased to $8.60/boe in 2012 from $11.16/boe in 2011 as a result of the addition of lower cost natural gas operations in Turkey.

With approximately 93 percent of Valeura's current production coming from natural gas production acquired from the TBNG-PTI and Edirne acquisitions in Turkey, the Company is benefitting from a lower cost operation. For the three months and nine months ended September 30, 2012, production costs in Turkey were $1.34 per Mcf ($8.02/boe) and $1.22 per Mcf ($7.31/boe) respectively.

General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
General and administrative	**$ 1,421,240**	$ 1,194,449	**$ 5,038,673**	$ 3,685,953
Business development	**146,104**	241,286	**446,635**	964,536
Total gross general and administrative expenses	**1,567,344**	1,435,735	**5,485,308**	4,650,489
Recoveries	**(156,921)**	(104,075)	**(562,085)**	(110,325)
Total net general and administrative expenses	**$ 1,410,423**	$ 1,331,660	**$ 4,923,223**	$ 4,540,164

Total net general and administrative ("G&A") expenses for the three and nine months ended September 30, 2012 increased by 6 percent and 8.4 percent, respectively, when compared to the same periods in 2011 due to the expansion of Turkish operations. The higher costs 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-PTI 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 July 18, 2012, the Company closed a minor asset disposition and received $89,283 from a third party as payment. The gain on the sale of these assets was $71,568 including removal of decommissioning obligations of $35,400.

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. The entire amount received was recorded as a gain on asset disposition in Q2 2012.

Transaction Costs

In accordance with IFRS 3 – "Business Combinations", acquisition related costs or transaction costs are recognized separately from the business combination and are included as an expense in the statement of loss. For the three and nine months ended September 30, 2012 transaction costs were $nil and $nil compared to $163,868 and $2,101,182 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		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Accretion of decommissioning obligations	**$ 154,790**	$ 21,773	**$ 475,200**	$ 35,635

Accretion of decommissioning obligations for the three and nine months ended September 30, 2012 was $154,790 and $475,200, respectively, compared to $21,773 and $35,635 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 loss of $276,967 and $45,719, respectively, for the three and nine months ended September 30, 2012 compared to foreign exchange losses of $134,992 and $90,329 for the three and nine months ended September 30, 2011. The foreign exchange loss was higher in Q3 2012 when compared to Q3 2011 due to devaluation of the Turkish Lira against the Canadian and United States Dollars.

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 nine months ended Septermber 30, 2012, the Company recorded other income of $107,970 and $320,887, respectively, compared to $101,109 and $285,033, for the same periods in 2011. Other income is comprised of interest income related to cash on hand. The increase for the nine months ended September 30, 2012 is attributed to higher average cash levels in 2012 in comparison to 2011.

Income Taxes

During the three and nine months ended September 30, 2012, the Company did not have any current income tax expense. Capital spending and utilization of tax pools in the third quarter of 2012 was sufficient to offset income earned during the quarter. During the three and nine months ended September 30, 2011 the Company recorded income tax expense of $545,386 and $824,659, respectively, which was recovered in Q4 2011 as a result of increased capital spending.

Funds Flow from Operations

Funds flow from operations for the three and nine months ended September 30, 2012 was $2,803,187 and $9,115,350, respectively, compared to $1,983,189 and ($1,563,376) for the same periods in 2011. The increased funds flow from operations for the three months ended September 30, 2012 is the result of increased natural gas prices in Turkey, partially offset by lower production. The increase in funds flow from operations for the nine months ended September 30, 2012 is the result of increased production from the acquired assets in the Thrace Basin in Turkey and higher natural gas prices 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 nine months ended September 30, 2012 was $380,465 and $1,245,595, respectively, compared to $628,654 and $1,870,554 for the same periods in 2011. Performance warrants issued in 2010 attracted a higher amount of stock-based compensation expense in 2011 due to accelerated amortization under IFRS.

Exploration and Evaluation Expense (Recovery)

Exploration and evaluation ("E&E") expense consists of exploration projects that are deemed to have a lower fair value when compared to book value. E&E expense for the three and nine months ended September 30, 2012 was ($300) and $1,129,662, respectively, compared to $1,092,000 and $3,372,121 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 nine shallow gas wells that completed drilling in the first nine months of 2012 on the TBNG-PTI lands, seven were successful (78 percent success rate). All of the nine 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 nine months ended September 30, 2012 was $2,462,105 and $8,602,253, respectively, compared to $4,344,183 and $6,224,774 for the same periods in 2011. For the three months ended September 30, 2012 depletion and depreciation was lower when compared to the same period in 2011 due to lower total production volumes. For the nine months ended September 30, 2012 depletion and depreciation was higher when compared to 2011 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 nine months ended September 30, 2012 was $23.48/boe and $23.26/boe, respectively, compared to $28.89/boe and $27.38/boe for the same periods in 2011. Depletion and deprecation expense for both Q3 2012 and YTD 2012 is lower on a unit-of-production basis due to the addition of proved plus probable reserves from the 2011 TBNG-PTI acquisition.

These relatively high unit 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 unit rates decline as deeper, longer life tight gas reserves are developed.

Impairment

Impairment for the three and nine months ended September 30, 2012 was $nil and $888,000, respectively, compared to $nil and $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 nine months ended September 30, 2012 was $300,658 and $667,772, respectively, compared to a recovery of $652,640 and $950,000 for the same periods in 2011. 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. Although the Company is carrying a deferred tax liability, it does not expect to be cash taxable for the forseeable future provided that capital expenditures in Turkey are not significantly reduced.

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.

Currency translation adjustments for the three and nine months ended September 30, 2012 were ($1,960,823) and $730,271, respectively, compared to ($4,102,898) and ($5,679,534) for the same periods in 2011 and are related to the fluctuation in value of the Turkish Lira when compared to the Canadian Dollar in the respective periods. The currency translation loss in Q3 2012 is due to the devaluation of the Turkish Lira against the Canadian dollar during the quarter.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		**Nine months ended**	
Turkey	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Geological and geophysical	**$ 1,190,942**	$ 3,555,709	**$ 2,947,045**	$ 3,752,176
Land	**-**	-	**1,553,726**	-
Drilling and completions	**3,138,826**	2,336,979	**16,012,789**	6,163,394
Equipping	**171,721**	90,488	**383,368**	92,641
Recompletions and fractures	**1,219,621**	1,712,103	**4,002,977**	1,876,573
Other	**-**	130,043	**1,966**	130,043
Asset acquisitions	**-**	-	**-**	55,671,073
Turkey total	**5,721,110**	7,825,322	**24,901,871**	67,685,900
Canada total	**(78,631)**	17,927	**121,809**	5,917
Consolidated total	**$ 5,642,479**	$ 7,843,249	**$25,023,680**	$67,691,817

Turkey

Valeura spent $5.7 million in the third quarter of 2012 of which $3.1 million was related to drilling and completions activities in Turkey. The Company spudded three (1.04 net) wells targeting natural gas in the Thrace Basin (two on the TBNG-PTI lands and one on License 3999) and one (0.26 net) well targeting oil in the Gaziantep area on License 4607. Two (0.64 net) of these wells were still drilling at the end of the quarter. Three (1.15 net) wells that were drilled in the first half of 2012 were completed and placed on production in Q3 2012. Two (0.8 net) of these wells are on TBNG-PTI lands and one (0.35 net) well is on the Company's Edirne license. Five (2.0 net) other well completions on TBNG-PTI lands were in progress at the end of the third quarter. The Company completed three (1.2 net) well re-entry fracs and twelve (4.8 net) recompletion operations on its TBNG-PTI lands and one (0.43 net) frac on its Karakilise lands in Q3 2012.

Valeura drilled several key wells in the first half of 2012 that are waiting to be completed, frac'd and evaluated over the next couple of months. Three of these wells, BTD-3, Baglik-1 and Kayi Derin-1 are considered key catalysts in determining the scope of a multi-well development drilling pilot project expected to commence in the first quarter of 2013. These three wells were drilled to depths from 2,512 to 3,755 metres as part of the proof-of-concept program on the deep tight gas play in the Thrace Basin. These wells penetrated deep tight gas formations that need to be frac'd to determine producibility. In addition, the Company is currently drilling the Kazanci-5 well, the first deep well in the northern part of the TBNG-PTI lands, targeting tight gas at a total planned depth of 3,250 metres. The Company expects that the results from these deeper wells will provide further exploration and development drilling inventory for the 2013 capital program.

The total 2012 capital program is expected to be in the range of $30 to $32 million. The 2013 capital program is currently under development with partners.

Liquidity, Financing and Capital Resources

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Opening cash position	**$ 18,338,379**	$ 32,504,845	**$ 24,106,718**	$ 19,460,311
Inflow of funds				
Issuance of shares – net of share issue costs	**-**	-	**-**	81,066,022
Proceeds on asset disposition	**89,283**	-	**189,283**	-
Funds from operations	**2,803,187**	1,983,189	**9,115,350**	-
	2,892,470	1,983,189	**9,304,633**	81,066,022
Outflow of funds				
Funds from operations	**-**	-	**-**	(1,563,376)
Capital expenditures	**(5,642,479)**	(7,843,249)	**(25,023,680)**	(67,691,817)
Decommissioning costs incurred	**(10,684)**	-	**(12,868)**	(54,124)
Changes in working capital and foreign exchange on cash	**1,073**	6,546,109	**7,203,956**	1,973,878
	(5,652,090)	(1,297,140)	**(17,832,592)**	(67,335,439)
Closing cash position	**$ 15,578,759**	$ 33,190,894	**$ 15,578,759**	$ 33,190,894

Capital Funding and Resources

As at September 30, 2012, Valeura's working capital balance was $13,992,137 including a cash and cash equivalents position of $15,578,759.

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 nine months of 2012, the Company utilized this opening cash balance and funds flow from operations of $9,115,350 to fund an exploration and development capital program of $25,023,680 and incurred decommissioning costs of $12,868. The resultant cash and cash equivalents balance at September 30, 2012 is $15,578,759.

Financial Capacity

The combination of Valeura's 2012 opening working capital surplus of approximately $29.4 million plus projected 2012 operating cash flow after G&A of $11 to $12 million is sufficient to fund a projected capital program of $30 to $32 million in 2012.

On September 17, 2012, the Company entered into an agreement with a syndicate of underwriters to purchase, on a "bought deal" basis, 11.5 million common shares of Valeura at a price of $1.30 per common share for gross proceeds of $14.95 million (estimated net proceeds after fees and expenses of $13.8 million). The financing closed on October 10, 2012 and expands Valeura's financial capacity for 2013.

The Company expects to open 2013 with a working capital position of $22 to $25 million.

Capital Management

The Company's objective 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 production and reserves in Turkey. 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			
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Total daily production (boe/d)	1,140	1,340	1,572	1,856
Average wellhead price ($/boe)	55.88	56.28	47.62	44.61
Petroleum and natural gas sales	$ 5,858,805	$ 6,863,658	$ 6,810,184	$ 7,619,255
Funds from operations	2,803,187	3,373,244	2,938,919	4,084,943
$ per share (basic and diluted)[1]	0.06	0.07	0.06	0.09
Net loss	(702,174)	(751,793)	(2,340,140)	(3,406,130)
$ per share (basic and diluted)[1]	(0.02)	(0.02)	(0.05)	(0.07)

	Three months ended			
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Total daily production (boe/d)	1,635	692	156	193
Average wellhead price ($/boe)	38.81	43.02	40.13	38.63
Petroleum and natural gas sales	$ 5,836,765	$ 2,707,193	$ 562,132	$ 686,098
Funds from operations	1,983,189	(1,622,240)	(1,924,325)	(879,447)
$ per share (basic and diluted)[1]	0.04	(0.06)	(0.10)	(0.04)
Net loss	(3,749,286)	(4,359,006)	(4,262,009)	(3,350,588)
$ per share (basic and diluted)[1]	(0.08)	(0.17)	(0.21)	(0.17)

1. The average number of common shares outstanding is not increased for outstanding stock options and performance warrants when the effect is anti-dilutive.

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.
- Valeura is benefiting from higher natural gas prices and netbacks in Turkey. In Canada, the price of natural gas 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.
- The Company acquired producing natural gas assets in the Thrace Basin in 2011 which added approximately 1,500 boe/d of production at the time. 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 significant drilling and production operations in Turkey in 2011, 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 loss in Q3 2012 was $276,967 while the currency translation adjustment recorded in accumulated other comprehensive income was ($1,960,823). The currency translation loss for the three months ended September 30, 2012 is the direct result of the devaluation of the Turkish Lira against the Canadian Dollar.
- The Company incurred an impairment charge of $888,000 on its Canadian Grand Forks and Minor Properties CGUs and E&E expense of $1,129,662 on its Turkish properties during the nine months ended September 30, 2012. The E&E expense consists of two dry holes drilled on the TBNG-PTI lands.

Segmented Information

	Three months ended		**Nine months ended**	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Petroleum and natural gas revenue				
Canada	**$ 274,319**	$ 516,580	**$ 942,596**	$ 1,534,347
Turkey	**5,584,486**	5,320,185	**18,590,051**	7,571,743
	5,858,805	5,836,765	**19,532,647**	9,106,090
Net loss				
Canada	**(1,893,005)**	(2,047,510)	**(6,351,516)**	(8,013,023)
Turkey	**1,190,831**	(1,701,776)	**2,557,409**	(4,357,279)
	(702,174)	(3,749,286)	**(3,794,107)**	(12,370,302)
Capital expenditures				
Canada	**(78,631)**	17,927	**121,809**	5,917
Turkey	**5,721,110**	7,825,322	**24,901,871**	67,685,900
	$ 5,642,479	$ 7,843,249	**$ 25,023,680**	$ 67,691,817
Total assets				
Canada			**22,400,846**	49,663,426
Turkey			**101,747,903**	80,433,381
			$ 124,148,749	$ 130,096,807

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. As at September 30, 2012, the remaining commitment is approximately 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. As at September 30, 2012, the remaining commitment is approximately US$4.5 million.

On August 31, 2011, the Company entered into a two-year sublease agreement for office space in Calgary commencing on November 1, 2011 and expiring on October 31, 2013. The total amount committed under this sublease is approximately $425,000 which includes an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $230,000 as at September 30, 2012.

On October 26, 2012, Valeura entered into a further two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1 million.

Subsequent Events

On October 10, 2012, the Company closed its previously announced public offering of common shares. A total of 11.5 million common shares of Valeura were issued at a price of $1.30 per common share for gross proceeds of $14.95 million (estimated net proceeds after fees and expenses of $13.8 million).

New Accounting Pronouncements and Critical Accounting 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 and uncertainty 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

In May, 2011, the International Accounting Standards Board ("IASB") released the following new standards which are effective for fiscal years beginning January 1, 2013 with earlier adoption permitted:

- 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 is currently assessing the impact, if any, that the adoption of these standards will have on its financial statements, and currently plans to adopt the above IFRS accounting standards on January 1, 2013.

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 September 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 September 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.