valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 31, 2014 and 2013

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

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 March 10, 2015 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 31, 2014 and 2013. Additional information relating to Valeura is available under Valeura's profile on www.sedar.com, including Valeura's Annual Information Form for the year ended December 31, 2014 ("2014 AIF"). The reporting currency is the Canadian dollar (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

The audited consolidated financial statements have been issued under International Financial Reporting Standards ("IFRS") as at and for the years ended December 31, 2014 and 2013. The financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Note 3 of the audited consolidated financial statements.

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.

During the third quarter of 2014, Valeura sold all of its remaining Canadian petroleum and natural gas properties. As the Company no longer has oil and gas properties in Canada the previous Canadian segment has been treated as discontinued operations and removed from current and comparative period results throughout this MD&A. All tables, except those expressly described as discontinued operations, contain information from the Company's continuing operations only.

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 income or loss for the period adjusted for non-cash items) are non-GAAP measures and do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuers. The closest GAAP measure to operating netback and funds flow from operations is net income (loss) – see the reconciliation of these non-GAAP financial measures to net income (loss) under "Results of Operations". The Company uses these supplemental non-GAAP measures to assist readers in evaluating operating performance. The following table reconciles Valeura's cash provided by operating activities to funds flow from continuing operations:

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

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Cash provided by operating activities	**$ 4,912**	$ 3,630	**$ 12,141**	$ 11,679
Decommissioning costs incurred	**204**	107	**219**	192
Change in non-cash working capital	**(1,462)**	(80)	**1,226**	(2,022)
Stock options cancelled	**-**	15	**-**	15
Funds flow from continuing operations	**$ 3,654**	$ 3,672	**$ 13,586**	$ 9,864

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is for the purpose of explaining management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", "target" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, information with respect to future price realizations in Turkey; the extent of exploration leads on the Banarli Licence 5104; operational plans and costs (drilling, fracking and workovers) for the tight gas and shallow gas development programs in the Thrace Basin; the preliminary 2015 work program and budget for the Banarli Licence 5104; the possible expansion of the drilling program in 2015 on the Banarli licence and the associated cost; the availability of operating cash flow and the ability to finance development; the planned drilling of horizontal and vertical wells, well re-entry fracs and well recompletion workovers and the expected impact thereof; the timing, estimated costs and ability to fund each of the foregoing; the plans to attract a joint venture partner to drill the deep, potential basin-centered gas play on the Banarli Licence 5104 and certain joint venture lands in the Thrace Basin; and the ability to convert the Banarli Licence 5104 under the new licencing regime in Turkey.

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 are 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; the ability of the Company to obtain financing on acceptable terms; future drilling, fracking and re-completion activity; the anticipated tight gas development program in the Thrace Basin and the ability to finance future development; the ability to meet drilling deadlines and other requirements under licences and leases (including spudding deadlines under the Company's 100 percent owned Licences 5104 and 5147); the ability to attract partners and negotiate farm-out arrangements, in particular on the Banarli Licence 5104 and certain joint venture lands in the Thrace Basin; 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 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. In addition, budgets are based upon the Company's current work programs proposed by partners and associated exploration plans and anticipated costs, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of fracking and other specialized oilfield equipment and service providers and unexpected delays and changes in market conditions. 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 known 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 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 Company 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 risk of being unable to secure farm-in partners; the risk of being unable to meet drilling deadlines and the requirements under licences and leases (including Licences 5104 and 5147); uncertainty regarding converting licences under the GDPA's new licencing regime and negotiations with other licence holders; uncertainty regarding the amount of operating cash flow; 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; 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 Boru Hatlari ile Petrol Tasima Anonim Sirketi ("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; potential changes in laws and regulations; risks associated with weather delays and natural disasters; and the risk associated with international activity. See Valeura's 2014 AIF filed on SEDAR at www.sedar.com for a detailed discussion of the risk factors.

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

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

Highlights and Selected Financial Information

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Financial				
Petroleum and natural gas sales	**$ 6,921**	$ 6,347	**$ 24,998**	$ 21,084
Net income (loss) from continuing operations	**697**	(6,854)	**1,090**	(14,571)
Per share, basic and diluted	**0.01**	(0.12)	**0.02**	(0.25)
Funds flow from continuing operations[1]	**3,654**	3,672	**13,586**	9,864
Per share, basic and diluted	**$ 0.06**	$ 0.06	**$ 0.23**	$ 0.17
Production volumes				
Crude oil (bbl/d)	**10**	14	**8**	16
Natural gas (Mcf/d)	**7,022**	6,812	**6,812**	5,494
Total (boe/d)	**1,180**	1,149	**1,143**	932
Sales prices				
Crude oil (per bbl)	**$ 62.66**	$ 97.64	**$ 78.64**	$ 97.36
Natural gas (per Mcf)	**10.62**	9.93	**9.96**	10.23
Total (per boe)	**63.73**	60.04	**59.92**	62.00
Capital expenditures (net)	**$ 2,822**	$ 5,809	**$ 10,846**	$ 26,952
Net working capital surplus			**10,044**	6,834
Cash and cash equivalents			**5,928**	6,511
Weighted average shares outstanding Basic and diluted (thousands)	**57,906**	57,906	**57,906**	57,906

Outstanding Share Data

	December 31, 2014
Common shares	57,906,135
Warrants	13,269,217
Stock options	3,174,000
Performance warrants	2,796,750
Diluted	77,146,102

As at the date of this MD&A, the performance warrants exercisable into 2,796,750 common shares had expired. The diluted number of shares outstanding at March 10, 2014 is 74,349,352.

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

The Company

Valeura and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. The Company's small non-strategic assets in Canada were sold on August 19, 2014 and as a result the Canadian operations are considered discontinued for 2014 and all comparative years in this MD&A. The Company's continuing operations, which include Turkey operations and corporate costs, are presented throughout this MD&A with one section summarizing the discontinued operations. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "VLE".

Valeura was established in 2010 to grow internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest which 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 since that time has executed a number of other transactions and won several new exploration licence awards in Turkey. As at December 31, 2014, the Company held an interest in 21 exploration licences and production leases comprising approximately 0.96 million gross acres (0.42 million net acres) primarily in the Thrace Basin (90.5% of net lands) of northwest Turkey and the Anatolian Basin (9.5% of net lands) of southeast Turkey. The assets in the Thrace Basin include a 40 percent interest in an established natural gas production and marketing business and a large acreage position of approximately 0.81 million gross acres (0.38 million net acres) with both conventional shallow gas exploration potential exposure to a potentially significant unconventional tight gas resource play below the existing shallow gas formations. The tight gas play is under delineation and early-stage development after more than four years of activity aimed at de-risking the play. The assets in the Anatolian Basin as at December 31, 2014 included two exploration licences with oil potential.

In May 2013, the Turkish government passed a new petroleum law, which amongst other provisions, included a new licencing regime for the award of future exploration licences and production leases. Voluntary conversion of existing exploration licences to the new regime has been encouraged, where possible, but would require re-alignment of the existing licence boundaries and negotiation with offset licence holders to fit a new international grid system that was also adopted as part of the new law. During the course of 2014 Valeura and its joint venture partners made applications to the GDPA to convert essentially all of its existing exploration licences to new exploration licences or new production leases over part of certain existing exploration licences that were nearing expiry in 2014 or 2015. Good progress is being made with the GDPA in this conversion process and several new production leases and reconfigured exploration licences were awarded in the fourth quarter of 2014. There is no certainty that all of the requested conversions can be achieved and timing remains uncertain. The reader is referred to the Company's 2014 AIF for a detailed description of the old and new licencing terms in Turkey.

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 Licence 3839. Valeura acquired a 35 percent working interest in the lands and producing assets associated with the Edirne Licence.

In the fourth quarter of 2014, the original Edirne exploration licence was converted to three new production leases under the new petroleum law encompassing 49,883 gross acres (17,459 net acres).

Natural gas production from the Edirne production leases is sold domestically to a large wholesale gas marketer through a nine kilometre tie-in to a large diameter pipeline operated by BOTAS, which enters Turkey through Bulgaria and carries Russian gas into the Istanbul area.

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") (the "TBNG JV") (Valeura 40 percent) 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 JV 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 onshore and offshore land (220,617 net) as at December 31, 2014, and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The TBNG JV lands currently include nine production leases and five exploration licences, of which two licences are entirely on land and three licences have a portion in the shallow waters (up to 200 metres water depth) of the Sea of Marmara. This includes four new production leases that were granted on part of two existing exploration licences in the fourth quarter of 2014 under the new petroleum law. The residual portions of the existing exploration licences have been retained at this time but are due to expire in November 2015, subject to any additional production lease carve-outs approved by the GDPA.

Natural gas is currently produced from approximately 65 wells (gross) on the TBNG JV lands, all located onshore. Approximately 50 percent of the natural gas produced in 2014 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500 to 1,500 metres. The gas is processed and compressed in owned facilities and is distributed in an owned pipeline network directly to more than 50 commercial and end-user customers. TransAtlantic has responsibility for the marketing arrangements on behalf of the joint venture.

Selective opportunities exist to continue to pursue shallow gas exploration and development drilling, well workovers and wellhead compression to mitigate natural declines in existing production. Approximately 3,500 kilometres of legacy 2D seismic is available on the onshore lands in the Thrace Basin and an additional 413 square kilometres of 3D seismic was acquired in the second half of 2011 to support the Company's exploration and development drilling program for both shallow gas, but more importantly, deeper tight gas targets. An additional 232 square kilometres of 3D seismic was acquired in the fourth quarter of 2013 in the Osmanli area immediately south of Valeura's 100 percent Banarli licence.

Valeura believes there is considerable 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 metres, depending on the area. Accordingly, the Company has been focusing the majority of its capital program in the Thrace Basin on tight gas exploitation in the past few years. The Company has had an active program of re-entering selected existing medium-depth wells to fracture stimulate ("frac") selected sandstone units, as well as drilling and fracking new medium-depth and deep wells as part of a proof-of-concept tight gas exploitation program. The Company completed 55 well re-entry fracs (including 11 multi-stage fracs) and 18 new drill fracs (including 11 multi-stage fracs) during the period from July 1, 2011 to December 31, 2014. Natural gas production from tight gas sands in these fracked wells contributed approximately 50 percent of the natural production from the TBNG JV lands in 2014.

In the third quarter of 2014, Valeura and its partners in the TBNG JV commenced a five-well (gross) conventional natural gas exploration and development program in the Osmanli area on the new 3D seismic acquired in late 2013. The program resulted in three new pool discoveries at the Gurgen-1, Tavanli-1 and Biyikali-2 sidetrack wells and a successful development well at Guney Osmanli-1. The Company also drilled an exploration well at Dogu Osmanli-1 in which the log analysis indicated gas bearing pay in the Mezardere formation only. Valeura elected to case and complete the well as an independent operation (Valeura 100%) and continues to evaluate the Mezardere formation as a potential future frac candidate. In December 2014, the Company followed up the Gurgen-1 discovery well with an appraisal well, Gurgen-2, which was successful. As at December 31, 2014 five of the six wells drilled were on production and contributing more than 9.0 MMcf/d (gross) to sales from the TBNG JV.

In January 2015, a second appraisal well, Gurgen-3, was drilled and is on production as of the date of this MD&A.

Other Acquisitions and New Licence Awards

On January 16, 2012, Valeura closed the acquisition of a 24 percent non-operated working interest held by Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") in three exploration licences (3998, 3999 and 4187) in the Thrace Basin operated by Merty Energy for consideration of US$1.5 million. The Company participated in the acquisition of 186 kilometres of new 2D seismic on Licence 3999 in the third quarter of 2012 and spudded the Kavacik-1 well on this licence which was dry and abandoned. Valeura and its partners agreed to let all three licences expire under the existing arrangements over the October 2012 to January 2013 period. The Company re-applied for Licence 3999 and 4187 with a 100 percent working interest. In July 2013, Valeura was awarded a new exploration Licence 5147 on a 100 percent basis (20,668 gross acres), which encompasses the lands in the expired Licence 4187. A decision by the GDPA on the award of a new licence to replace the expired Licence 3999 remains outstanding and timing is uncertain.

On April 8, 2013, the Company announced that it had been awarded the Banarli Licence 5104 on a 100 percent basis. The exploration licence covers an area of 118,598 gross acres (185 square miles) near the centre and deepest part of the Thrace Basin and has a four-year initial term. The Company shot 93 kilometres of new 2D seismic in June 2013 to complement more than 300 kilometres of vintage 2D seismic on this licence. The Company has applied to the GDPA to convert the Banarli licence to terms under the new petroleum law and the application remains outstanding as of the date of this MD&A.

In aggregate, the Company held interests in 19 production leases and exploration licences in the Thrace Basin covering an area of 813,510 gross acres (377,343 net) as at December 31, 2014.

Anatolian Basin

Karakilise

In February 2014, Valeura sold its 27.5 percent interest in the two Karakilise Licences 2674 and 2677 in the Anatolian Basin, which included two marginal oil wells producing in aggregate less than 10 barrels of oil per day ("bopd"). Both licences were near expiry at the end of their 11-year term, requiring applications for production leases and relinquishment of the residual exploration areas by May 2014. The Company assessed that there was limited upside potential in retaining these licences. A charge to exploration expense of $7.4 million was recorded in the fourth quarter of 2013 for a write down to the fair market value of these licences.

Gaziantep

The TBNG JV acquisition described above also included a 26 percent non-operated working interest in lands in the Gaziantep area in the Anatolian Basin. The lands acquired originally included four exploration licences 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 Licence 4607 and drilling a new horizontal sidetrack of approximately 414 metres in length within the Mardin. In December 2012, part of the horizontal section was completed near the toe of the well, which tested oil. In May 2013, a more extensive completion along the full length of the horizontal lateral was carried out but early production testing yielded only formation water with traces of oil. Further evaluation is underway to assess the merits of a recompletion program to potentially reduce water production from the well.

In October 2013, the Company and its partners relinquished three of the four Gaziantep licences, which were assessed to have limited prospectivity. The remaining Licence 4607 was retained and was subsequently converted to two new exploration licences in the fourth quarter of 2014 under the new petroleum law comprising 152,111 gross acres (39,549 net acres).

Outlook

The Company expects to execute a capital expenditure budget of up to $18 to $20 million in Turkey in 2015, focused on natural gas development in the Thrace Basin, contingent on the level of operating cash flow from the TBNG JV lands. The work program and budget aims to achieve the following key objectives in 2015:

- Offset natural declines and achieve 5 to 10 percent production growth in 2015 on the TBNG JV lands from a program funded by available cash and operating cash flow;
- Pursue the shallow conventional gas play on Valeura's 100% Banarli licence with new 3D seismic and drill a licence retention well and up to two additional wells, contingent on the seismic results and the Company's cash position; and
- Seek a farm-in partner(s) to pursue the deep basin-centered gas play on the TBNG JV lands and Banarli.

TBNG Joint Venture

The planned work program on the non-operated TBNG JV lands in 2015 includes up to 10 new wells (gross), balanced between lower cost conventional wells targeting the Osmancik formation, building on the successful 2014 shallow gas exploration program in the Osmanli area, and tight gas wells targeting the Mezardere formation. The program is also expected to include a selective program of tight gas well re-entry fracs and workovers on conventional gas wells.

The Company's capital expenditures on the TBNG JV lands are expected to be between $8.0 and $9.0 million.

Banarli Exploration Licence

With respect to program on the operated Banarli exploration licence in 2015, Valeura plans to acquire approximately 150 square kilometres of new 3D seismic on the southern part of the licence to overlap the recent Osmanli 3D seismic on the TBNG JV lands. The estimated cost to acquire, process and interpret the seismic is approximately $4.9 million. The seismic acquisition phase is expected to commence in May or June 2015, which is normally the most cost effective time in terms of favourable weather and minimum impact on the crop harvest, although opportunities to accelerate the program will be pursued.

The 2015 Banarli work program also includes up to three exploration wells targeting the Osmancik formation and top of the Mezardere formation to a depth of approximately 2,500 metres, contingent on the results from the new 3D seismic and the Company's cash position at the time. The average cost to drill, complete and test each well is estimated at $2.1 million. Drilling is targeted to commence late in the third quarter or early in the fourth quarter of 2015 depending on the timing of the 3D seismic. Contingent funds of $1.2 million are also included in the 2015 budget for a trunk-line to tie-in at least one well, assuming drilling success and a negotiated transportation and marketing arrangement to tie-in production to the TBNG JV facilities as one alternative.

The Company's capital expenditures at Banarli for the shallow gas play are expected to be between $10.0 and $11.0 million.

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

Results of Operations

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Petroleum and natural gas sales	**$ 6,921**	$ 6,347	**$ 24,998**	$ 21,084
Royalties	**(936)**	(860)	**(3,380)**	(2,843)
Production costs	**(966)**	(865)	**(2,842)**	(3,408)
Operating netback[1]	**5,019**	4,622	**18,776**	14,833
Other income	**31**	145	**431**	852
General and administrative	**(1,445)**	(1,104)	**(5,363)**	(5,794)
Realized foreign exchange gain (loss)	**49**	9	**(258)**	(27)
Funds flow from continuing operations[1]	**3,654**	3,672	**13,586**	9,864
Non-cash expenses				
Stock based compensation	**(159)**	(665)	**(581)**	(1,696)
Financing costs	**(189)**	(165)	**(651)**	(560)
Exploration and evaluation expense	**(2)**	(7,407)	**(75)**	(13,327)
Unrealized foreign exchange gain (loss)	**444**	(210)	**350**	(1,873)
Depletion and depreciation	**(2,638)**	(2,562)	**(10,207)**	(8,119)
Impairment	**-**	(260)	**-**	(260)
Deferred tax recovery (expense)	**(413)**	743	**(1,332)**	1,400
Net Income (loss) from continuing operations	**$ 697**	$ (6,854)	**$ 1,090**	$ (14,571)

Corporate Sales Volumes

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Crude oil (bbl/d)	**10**	14	**8**	16
Natural gas (Mcf/d)	**7,022**	6,812	**6,812**	5,494
Total (boe/d)	**1,180**	1,149	**1,143**	932

Sales volumes in Q4 2014 and the year ended December 31, 2014 increased to 1,180 barrels of oil equivalent per day ("boe/d") and 1,143 boe/d, respectively, compared to 1,149 boe/d and 932 boe/d for the same periods in 2013 reflecting the contribution of natural gas production from new wells, workovers and fracs in the Thrace Basin.

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

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

Corporate Operating Netbacks ($ per boe)

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Petroleum and natural gas sales	**$ 63.73**	$ 60.04	**$ 59.92**	$ 62.00
Royalties	**(8.62)**	(8.14)	**(8.10)**	(8.36)
Production costs	**(8.89)**	(8.19)	**(6.81)**	(10.02)
Operating netback	**$ 46.22**	$ 43.71	**$ 45.01**	$ 43.62

Pricing Information

	Three months ended		Years ended	
Average benchmark price	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013
Natural gas – BOTAS (per Mcf)[1] – TL	**TL 21.93**	TL 20.12	**TL 20.57**	TL 20.12
Natural gas – BOTAS (per Mcf) – CAD	**$ 11.02**	$ 10.44	**$ 10.39**	$ 10.89
Average exchange rate (CAD/TL)	**1.990**	1.928	**1.979**	1.847

	Three months ended		Years ended	
Average realized prices	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013
Crude oil (per bbl)	**$ 62.66**	$ 97.64	**$ 78.64**	$ 97.36
Natural gas (per Mcf)	**$ 10.62**	$ 9.93	**$ 9.96**	$ 10.23

The following table shows the percentage change in Valeura's realized prices for Q4 2014 and YTD 2014 compared to the same periods in 2013:

	Q4 2014	**YTD 2014**
Crude oil	-36%	-19%
Natural gas	7%	-3%

Natural gas prices remain strong in Turkey. Natural gas prices under sales contracts for all production in the Thrace Basin are linked to the BOTAS benchmark price in Turkish Lira ("TL"). Effective October 1, 2014 the Turkish Lira natural gas benchmark price increased by nine percent. This has resulted in an effective Canadian dollar converted benchmark price of $11.02 per thousand cubic feet ("Mcf") for Q4 2014. Natural gas sales from the TBNG JV lands are under direct sales contracts to industrial buyers in the area. Natural gas sales in the Edirne field are delivered to the BOTAS pipeline and sold to a large wholesale buyer. All natural gas sales contracts for the TBNG JV lands and the Edirne field reflect a negotiated discount to the BOTAS benchmark price. The average realized natural gas price in Turkey for Q4 2014 of $10.62 per Mcf represents a four percent discount to the BOTAS benchmark price.

The Company's Q4 2014 average realized natural gas price in Turkey increased by 10 percent to $10.62 per Mcf from $9.66 per Mcf in Q3 2014 due primarily to the increased BOTAS benchmark price effective October 1, 2014.

[1] BOTAS owns and operates the national crude oil and natural gas pipeline grids in Turkey and purchases the majority of Turkey's natural gas imports. BOTAS regularly posts prices and its Industrial Interruptible Tariff benchmark is shown herein as a reference price. See the 2014 AIF for further discussion.

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

Petroleum and Natural Gas Sales Revenues

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Crude oil	**$ 58**	$ 124	**$ 224**	$ 570
Natural gas	**6,863**	6,223	**24,774**	20,514
Total revenues	**$ 6,921**	$ 6,347	**$ 24,998**	$ 21,084

The composition of petroleum and natural gas sales revenues for the year ended December 31, 2014 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q4 2014 increased in comparison to the same period in 2013 due primarily to increased volumes from drilling activity, and a nine percent increase in the BOTAS benchmark price. Revenues increased for the year ended December 31, 2014 when compared to the same period in 2013 primarily due to increased volumes partially offset by lower realized natural gas prices in Turkey in the period prior to the BOTAS benchmark price increase on October 1, 2014.

Royalties

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Royalties	**$ 936**	$ 860	**$ 3,380**	$ 2,843
Percentage of revenue	**13.5%**	13.5%	**13.5%**	13.5%

Royalties in Q4 2014 and the year ended December 31, 2014 increased in comparison to the same periods in 2013 as a result of higher production volumes and higher total revenue. Revenues in Turkey are subject to a 12.5 percent government royalty and certain overriding royalties.

Production Costs

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Production costs	**$ 966**	$ 865	**$ 2,842**	$ 3,408
$ per boe	**8.89**	8.19	**6.81**	10.02

Unit production costs for the year ended December 31, 2014 decreased to $6.81/boe compared to $10.02/boe for the same period in 2013 as a result of increased operational efficiency, lower overhead costs and increased production volumes. Unit production costs for Q4 2014 increased to $8.89/boe compared to $8.19/boe for the same period in 2013 due primarily to increased union labour costs, partially offset by higher volumes. The Company anticipates natural gas production costs in 2015 to average approximately $7.50 per boe, or 10 percent higher than 2014.

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

General and Administrative Expenses

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
General and administrative expense	**$ 1,614**	$ 1,180	**$ 6,036**	$ 6,084
Business development	**-**	119	**101**	521
Total	**1,614**	1,299	**6,137**	6,605
Recoveries	**(169)**	(195)	**(774)**	(811)
Total general and administrative expense	**$ 1,445**	$ 1,104	**$ 5,363**	$ 5,794

Total general and administrative ("G&A") expense for Q4 2014 increased when compared the same period in 2013. The majority of the increase can be attributed to timing differences for audit and reserve fees. G&A expenses for the year ended December 31, 2014 decreased by seven percent when compared to the same period in 2013. The decrease is due to lower overall office expenses, employee compensation, business development and travel costs.

Foreign Exchange

During Q4 2014 and the year ended December 31, 2014, the Company recorded a foreign exchange gain of $0.5 million and $0.1 million respectively, compared to a foreign exchange loss of $0.2 million and $1.9 million for the same periods in 2013 (realized plus unrealized gains and losses). The foreign exchange gains in 2014 are the result of fluctuations in currency rates.

The functional currency for the Company's Turkish operations is the Turkish Lira. 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 Q4 2014 and the year ended December 31, 2014, the Company recorded other income of $31,000 and $431,000, respectively, compared to $145,000 and $852,000 for the same periods in 2013. Other income is comprised of processing and marketing income and interest income related to cash on hand. The decrease in 2014 is attributed to lower average cash levels in comparison to 2013 and lower third party volumes processed in 2014.

Funds Flow from Operations[1]

Funds flow from operations for Q4 2014 and the year ended December 31, 2014 was $3.7 million and $13.6 million, respectively, compared to $3.7 million and $9.9 million for the same periods in 2013. The increase in funds flow from operations for the year ended December 31, 2014 was due to higher production volumes, lower operating costs and lower general and administrative expenses, partially offset by lower natural gas price realizations in Turkey.

Non-Cash Expenses:

Share-Based Compensation

Share-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.

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

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

Share-based compensation expense for Q4 2014 and the year ended December 31, 2014 was $0.2 million and $0.6 million, respectively, compared to $0.7 million and $1.7 million for the same periods in 2013. The decrease in 2014 can be attributed to the cancellation of stock options in Q4 2013 and Q3 2014, which resulted in fewer stock options outstanding and a lower weighted average non-cash expense per award in 2014 when compared to 2013.

Financing costs

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Accretion of decommissioning obligations	**$ 189**	$ 165	**$ 651**	$ 560

Accretion of decommissioning obligations for Q4 2014 and the year ended December 31, 2014 increased in comparison to the same periods in 2013 due to an increase in well locations.

Exploration and Evaluation Expense

Exploration and evaluation ("E&E") expense consists of exploration projects that have a lower fair value when compared to book value. E&E expense for Q4 2014 and the year ended December 31, 2014 was nominal. E&E expense for Q4 2013 and the year ended December 31, 2013 was $7.4 million and $13.3 million, respectively. E&E expense for 2013 was comprised of $5.9 million for the relinquishment or expiry of six licences and $7.4 million for impairment on the Company's Karakilise Licences.

Depletion and Depreciation

Depletion and depreciation expenses for Q4 2014 and the year ended December 31, 2014 was $2.6 million and $10.2 million, respectively, compared to $2.6 million and $8.1 million for the same periods in 2013. Depletion and depreciation increased in 2014 due to higher total production volumes. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q4 2014 and the year ended December 31, 2014 was $24.30/boe and $24.47/boe, respectively, compared to $24.24/boe and $23.87/boe for the same periods in 2013.

Deferred Tax

Deferred tax for Q4 2014 and the year ended December 31, 2014 was an expense of $0.4 million and $1.3 million, respectively, compared to a recovery of $0.7 million and $1.4 million for the same periods in 2013. Deferred tax relates to changes in the temporary difference between the net book value and the tax basis of the assets and liabilities in the Company's Turkish operations that commenced in 2011. Although the Company is carrying a deferred tax liability, it does not expect to be cash taxable for the foreseeable future provided that capital expenditures in Turkey are not significantly reduced.

Currency Translation Adjustments

Translation of all assets and liabilities from their respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in accumulated other comprehensive income or loss ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in earnings.

The currency translation adjustment for Q4 2014 and the year ended December 31, 2014 was a gain of $1.3 million and a loss of $0.1 million, respectively, compared to losses of $0.5 million and $5.9 million for the same periods in 2013 and is related to the fluctuation in value of the Turkish Lira when compared to the Canadian dollar in the respective periods.

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

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Geological and geophysical	**$ 402**	$ 2,757	**$ 1,927**	$ 8,583
Dispositions	**-**	-	**(454)**	-
Drilling, completions & equipping	**2,161**	1,214	**6,966**	13,952
Recompletions and fracs	**206**	1,802	**2,349**	4,343
Land	**49**	-	**49**	-
Other	**4**	36	**9**	74
Total	**$ 2,822**	$ 5,809	**$ 10,846**	$ 26,952

Capital spending in Turkey for 2014 was $10.8 million, including $1.9 million for geological and geophysical operations, $7.0 million for drilling, completions and equipping and $2.3 million for recompletions and fracs.

In 2014, the Company spudded a total of nine (3.6 net) natural gas wells (including three horizontal tight gas wells) on the TBNG JV lands. Of the nine gross wells spudded, eight wells have been completed and put on production and one well is currently being evaluated. A total of six gross (2.4 net) well re-entry fracs and 21 gross (8.4 net) workovers were completed on TBNG JV lands in 2014.

During Q4 2014, the Company spudded two gross (0.8 net) wells, Dogu Osmanli-1 and Gurgen-2. The Dogu Osmanli-1 exploration well was drilled to a vertical depth of 2,100 metres into the Mezardere formation and is currently under evaluation. The Gurgen-2 appraisal well was drilled to a vertical depth of 2,000 metres into the Osmancik formation and has been completed and put on production. During Q4 2014, the Company completed workovers on three gross shallow gas wells (1.2 net) on the TBNG JV lands.

On February 19, 2014, Valeura entered into a sale agreement to dispose of its interest in Karakilise Licences 2674 and 2677 for total consideration of $0.5 million. The Company impaired the carrying value of its Karakilise E&E assets by $7.4 million through a charge to E&E expense in 2013.

Credit Facilities

On October 10, 2012, the Company opened a general credit facility in the amount of US$0.3 million with a Turkish bank for the purpose of obtaining letters of credit required by the Turkish government. As at December 31, 2014 and 2013, the Company had not drawn funds from this credit facility. Letters of credit totaling US$0.1 million were issued in 2014 (2013 – $0.1 million) against the credit facility. The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set. The Company continues to work on expanding the capacity of this facility for issuing future letters of credit.

Share Capital

Common shares	Number of Shares	Amount
Balance, December 31, 2014 and 2013	**57,906,135**	**$ 135,778**

As at December 31, 2014, Valeura had 57,906,135 common shares outstanding. In addition, Valeura had 3,174,000 outstanding options, 2,796,750 performance warrants, and 13,269,217 share purchase warrants outstanding as of December 31, 2014. As at the date of this MD&A, all of the performance warrants have expired and the diluted number of shares outstanding is currently 74,349,352.

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

Liquidity, Financing and Capital Resources

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Opening cash position	**$ 5,974**	$ 9,850	**$ 6,511**	$ 29,031
Inflow of funds				
Proceeds on asset disposition	**-**	-	**454**	-
Funds from operations	**3,654**	3,672	**13,586**	9,864
Proceeds on discontinued operations	**76**	120	**1,074**	317
	3,730	3,792	**15,114**	10,181
Outflow of funds				
Capital expenditures	**(2,822)**	(5,809)	**(11,300)**	(26,952)
Stock options cancelled	**-**	(15)	**-**	(15)
Decommissioning costs settled	**(204)**	(107)	**(219)**	(192)
Changes in working capital and foreign exchange on cash	**(750)**	(1,200)	**(4,178)**	(5,542)
	(3,776)	(7,131)	**(15,697)**	(32,701)
Closing cash position	**$ 5,928**	$ 6,511	**$ 5,928**	$ 6,511

Capital Funding and Resources

As at December 31, 2014, Valeura's working capital balance was $10.0 million including cash and cash equivalents of $5.9 million. Valeura's 2014 opening cash position was $6.5 million. In 2014, the Company utilized this opening cash balance plus funds flow from operations, proceeds on asset dispositions and discontinued operations totaling $15.1 million to fund an exploration and development capital program of $11.3 million. The resultant cash and cash equivalents balance at December 31, 2014 was $5.9 million after reflecting $4.4 million in outflows of funds, including changes in working capital and foreign exchange on cash, and decommissioning costs settled.

Financial Capacity

At the end of Q4 2014 the Company's working capital surplus was $10.0 million. The combination of this working capital surplus plus funds flow from operations for 2015 is expected to be sufficient to fund the Company's target capital program in 2015 of up to $18.0 to $20.0 million. The Company has considerable flexibility in managing capital given the terms of licence agreements and joint venture operating agreements in Turkey. Any commitments related to the lease and licence terms are incorporated in the capital budget.

The Company maintains considerable flexibility in managing its capital budget for 2015. The budgeted capital spending is split between the TBNG JV lands and the Banarli exploration license with approximately 50 percent of spending in each respective area. The drilling and workover capital spending on the TBNG lands would be considered lower risk spending with the objective of maintaining production levels with certain growth anticipated. Capital spending on the Banarli exploration licence would be considered higher risk capital. The Banarli seismic is planned for the spring and summer of 2015 while the drilling is deferred to the fourth quarter of 2015 while the seismic is processed and interpreted. The Company plans to drill at least one licence retention well and potentially up to two additional wells, contingent on the 3D seismic results and the Company's cash position. The Banarli exploration spending has been conservatively budgeted with minimal impact to funds flow from operations in 2015. There is between $4.5 and $5.0 million of purely discretionary spending in the 2015 capital budget that can be removed without any negative impact on projected funds flow from operations and working capital surplus. As a result of the above factors, management is confident that current working capital surplus and current production and funds flow levels are adequate to fund the 2015 budgeted capital program. There is no current expectation of utilizing either equity capital or debt capital to fund the 2015 budget. However, Valeura will continue to review sources of capital to increase financial capacity.

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

Capital Management

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

The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through operations, bank financing, equity offerings or other sources and there are no assurances that such funding will be available when needed. Failure to obtain such funding on a timely basis could cause the Company to reduce capital spending and could lead to the loss of exploration licences due to failure to meet drilling deadlines and lower production volumes and associated revenues.

The Company's capital expenditures include expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. However, the Company is currently exploring the potential for a lending facility for Turkey.

Selected Quarterly Information

The following tables summarize selected quarterly information regarding the Company. The information presented is from continuing operations only and per share amounts do not include outstanding stock options when the effect is anti-dilutive.

				Three months ended
	December 31, 2014	**September 30, 2014**	**June 30, 2014**	**March 31, 2014**
Total daily production (boe/d)	1,180	997	1,123	1,274
Average wellhead price ($/boe)	$ 63.73	$ 58.11	$ 59.65	$ 57.98
Petroleum and natural gas sales	6,921	5,331	6,097	6,650
Funds flow from continuing operations	3,654	3,011	3,283	3,638
Per share, basic and diluted	0.06	0.05	0.06	0.06
Net income (loss) from continuing operations	697	(171)	285	276
Per share, basic and diluted	$ 0.01	$ 0.00	$ 0.01	$ 0.01

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

				Three months ended
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total daily production (boe/d)	1,149	967	815	792
Average wellhead price ($/boe)	$ 60.04	$ 61.41	$ 62.92	$ 64.70
Petroleum and natural gas sales	6,347	5,465	4,664	4,608
Funds flow from continuing operations	3,672	2,940	1,721	1,531
Per share, basic and diluted	0.06	0.05	0.03	0.03
Net income (loss) from continuing operations	(6,854)	(4,711)	(2,212)	(794)
Per share, basic and diluted	$ (0.12)	$ (0.08)	$ (0.04)	$ (0.01)

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

- Revenue is directly impacted by the Company's ability to offset natural production declines with production additions from an on-going capital expenditure program.
- Valeura is benefiting from high natural gas prices and netbacks in Turkey.
- With significant drilling and production operations in Turkey, the Company has a high level of foreign exchange and currency translation exposure.

Fourth Quarter Review

During Q4 2014, production volumes increased to 1,180 boe/d from 997 boe/d in Q3 2014 primarily due to increased volumes from drilling. This resulted in funds flow from operations of $3.7 million in Q4 2014. The Company spent $2.8 million on exploration and development capital which was funded by the funds flow from operations and the existing cash position. Net income of $0.7 million from continuing operations was recorded in Q4 2014, which reflects recognition of $0.2 million of share based compensation expense and $2.6 million of depletion and depreciation expense.

Selected Annual Information

			Years Ended
	December 31, 2014	December 31, 2013	December 31, 2012
Petroleum and natural gas sales	$ 24,998	$ 21,084	$ 23,709
Cash provided by continuing operations	12,141	11,679	9,632
Funds flow from continuing operations	13,586	9,864	11,602
Per share, basic and diluted	0.23	0.17	0.24
Net income (loss) from continuing operations	1,090	(14,571)	(12,342)
Per share, basic and diluted ($/share)	0.02	(0.25)	(0.25)
Daily production (boe/d)	1,143	932	1,199
Sales price ($/boe)	59.92	62.00	54.07
Total assets	99,165	97,273	125,711
Total long term liabilities	17,124	13,633	16,298
Net working capital	$ 10,044	$ 6,834	$ 24,257

Note: prior period figures reclassified to remove discontinued Canadian operations.

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

In 2014, the Company was successful in providing growth in petroleum and natural gas sales and funds flow from operations following a decrease in 2013 from 2012. The increases were due to higher production volumes and lower operating costs and G&A costs partially offset by lower natural gas price realization in Turkey. The Company's net income also increased in 2014 in comparison to prior years primarily due to nominal E&E expenses in 2014 in comparison to $13.3 million and $13.6 million, respectively, in 2013 and 2012. Increased funds flow from operations also factored into the increased net income. The decrease in net working capital since 2012 is the result of continued capital spending in Turkey and the absence of any financing in 2013 or 2014.

Discontinued Operations

On August 19, 2014, the Company completed the sale of all its small Canadian assets for total consideration of $0.8 million after closing adjustments. Prior to the discontinued operations, Valeura had two reportable segments consisting of Canada and Turkey. The Company's Canadian assets were non-strategic and represented approximately 1.2 percent and 2.3 percent of operating income in 2014 and 2013, respectively. The discontinued Canadian operations should not significantly affect the Company going forward.

Results and other information from discontinued operations in Canada are summarized as follows:

	Three months ended		Years ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
Petroleum and natural gas revenue	**$ 2**	$ 209	**$ 653**	$ 966
Royalties	**(1)**	(7)	**(73)**	(63)
Other income	**19**	-	**19**	-
Production expense	**6**	(85)	**(344)**	(549)
Funds flow from discontinued operations	**26**	117	**255**	354
Financing expense	**-**	(4)	**(14)**	(9)
Depletion	**-**	(73)	**(109)**	(276)
Impairment	**-**	(3,026)	**-**	(3,026)
Operating income (loss) from discontinued operations	**26**	(2,986)	**132**	(2,957)
Gain on sale of discontinued operations	**50**	-	**140**	10
Net income (loss) from discontinued operations	**$ 76**	$ (2,986)	**$ 272**	$ (2,947)

Funds flow from discontinued operations (per share, basic and diluted)	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.01
Net income (loss) from discontinued operations (per share, basic and diluted)	**$ 0.00**	$ (0.05)	**$ 0.01**	$ (0.05)

Discontinued operations sales volumes (boe/d)	**-**	42	**27**	48
Discontinued operations capital expenditures (net of dispositions)	**$ (50)**	$ (29)	**$ (819)**	$ 11

Commitments and Contractual Obligations

On October 26, 2012, Valeura entered into a 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 $1.0 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.4 million as at December 31, 2014.

New Accounting Pronouncements and Critical Accounting Policies

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Valeura's assets are aggregated into cash-generating units for the purpose of calculating impairment. Cash generating units ("CGU" or "CGUs") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.
- Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.
- The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.
- Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in the consolidated financial statements:

- Estimation of recoverable quantities of proven and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 and the COGE Handbook.

- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.
- In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.
- The Company's estimate of share-based compensation is dependent upon estimates of historic volatility and forfeiture rates.
- The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Adoption of Accounting Standards

The International Accounting Standards Board ("IASB") released the following new standards:

IFRS 9 – "Financial Instruments" introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flow. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

The IASB released the following new standards which are effective for fiscal years beginning January 1, 2014:

IFRIC 21 – "Levies" requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. Adoption of this standard had no impact.

IAS 32 – "Financial Instruments: Presentation" provides guidance regarding when it is appropriate and permissible for an entity to disclose offsetting financial assets and financial liabilities on a net basis. Adoption of this standard had no impact on the Company's financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the officers concluded that Valeura's DC&P were effective as at December 31, 2014.

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorizations of management and Directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2014, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2014 and concluded that as of December 31, 2014, Valeura maintained effective ICFR. Valeura has designed its internal controls over financial reporting based on the framework in "Internal Control over Financial Reporting – Guidance for Smaller Public Companies" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992.

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.

There were no changes to Valeura's ICFR during the year ended December 31, 2014 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at December 31, 2014 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 international oil and gas industries, which are inherently risky.

The reader is referred to Valeura's 2014 AIF for a more complete description of business risks and uncertainties.

Political Risks

During 2013 and 2014 Turkey experienced periods of political unrest and civil disobedience. This resulted in a three percent and 11 percent devaluation of the Turkish Lira compared to the Canadian dollar in 2013 and 2014, respectively, compared to 2012, which has negatively impacted the Company's revenues from Turkey. These events have not impacted the Company's ability to conduct drilling and production operations and no delays or security issues have been experienced.

Variations in Foreign Exchange Rates and Interest Rates

The Company's functional currency in its subsidiary operations in Turkey is the Turkish Lira. The revenue stream in Turkey is based on Turkish Lira revenue for natural gas sales and US dollar based revenue for crude oil translated into Turkish Lira. Decreases in the value of the Turkish Lira could therefore result in decreases in revenue. The Company's drilling operations in Turkey and related contracts are based primarily in US dollars. Operating costs in Turkey are based primarily in Turkish Lira. Material increases in the value of the US dollar compared to the Canadian dollar will negatively impact the Company's costs of drilling and completions activity. Increases in the value of the Turkish Lira could result in increases in operating costs. Future Canadian/US dollar and US dollar/Turkish Lira exchange rates could also impact the future value of the Company's reserves as determined by independent evaluators.

The recent volatility and weakness in the value of the Turkish Lira may impair the ability of the Company to manage this exposure. Continued devaluation of the Turkish Lira without a corresponding increase in the natural gas reference price will have a negative impact on funds flow from operations and could affect the ability of the Company to fund its' capital program in the future.

To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. Valeura continues to assess its exposure to all foreign currencies. The Company is in the process of specifically assessing its exposure to the Turkish Lira and any possibilities that may exist to mitigate such exposure.

Foreign Operations

The Company pursues operations outside of Canada. As such, the Company's operations will be subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, interpretation or renegotiation of existing contracts, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. Problems may also arise due to the quality or failure of locally obtained equipment or technical support, which could result in failure to achieve expected target dates for exploration operations or result in a requirement for greater expenditure. In addition, the Company is a non-operator on the majority of its properties in Turkey and may not always be able to reach agreement with its partners, which could negatively impact costs and timing.

The Company will operate in such a manner as to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company in Turkey will be affected by numerous factors beyond its control. The Company's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company's revenues, profitability, future growth and the carrying value of its oil and gas properties, provided such properties yield production, are substantially dependent on prevailing prices of oil and gas.

The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The exchange rates between the Canadian and US dollar and Canadian dollar and Turkish Lira also affects the profitability of the Company.

The BOTAS price is a reference price fixed by the Energy Ministry. The Energy Minister stated in early 2015 that no decrease is planned for the posted natural gas reference price despite falling oil prices. The natural gas reference price is correlated to contract prices for natural gas imports into Turkey. Any reduction to the price of imported gas will allow the Turkish government to reduce natural gas subsidies and pay down debt as opposed to reducing the reference price.

Volatility of Commodity Prices

Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect oil prices include the actions of OPEC, world economic conditions, government regulation, political stability throughout the world, the availability of alternative fuel sources and weather conditions. World oil prices are quoted in United States dollars and the price received by the Company is affected by the Canadian/US dollar exchange rate, which will fluctuate over time. Natural gas prices internationally are affected by supply and demand, weather conditions and by prices of alternative sources of energy. Turkish natural gas prices are quoted in Turkish Lira and the price received by the Company is affected by the Canadian dollar/Turkish Lira exchange rate, which fluctuates over time. Material increases in the value of the Canadian dollar may negatively impact production revenues. Such increases may also negatively impact the future value of reserves as determined by independent evaluators. In 2014, the Canadian dollar had decreased materially in value against the United States dollar.

The impact on the oil and gas industry, in general, from commodity price volatility is significant. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increases in cost during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline. This volatility causes significant variation in net production revenue for the Company from period to period. In an environment of low prices, certain wells or other projects may become uneconomic and the Company may elect not to produce from certain wells, leading to a reduction in development opportunities and the volume and value of reserves.

Volatile oil and gas prices make it difficult to estimate the acquisition value of producing properties and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value.

Capital Requirements

The impact on capital markets caused by investor uncertainty in the global economy has a significant impact on the Company's business model. The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing will be available or that cash generated by operations will be sufficient to make these expenditures. If debt or equity financing is available, it may not be on terms acceptable to the Company. Failure to obtain such financing on a timely basis could cause the Company to reduce capital spending which would result in reduced production and the potential loss of exploration licences due to a failure to meet drilling deadlines.

Third Party Credit Risk

The Company must successfully market its oil and natural gas to prospective buyers. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future marketers of its oil and natural gas production. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material impact on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program unless sole risk provisions are available under the joint venture agreements.

Exploration, Development and Production

The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisition or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, the invasion of water into producing formations, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company is not always able to control these risks when it is a non-operator.

Uncertainty of Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, many factors and assumptions are incorporated such as expected reservoir characteristics based on geological, geophysical and engineering assessments, future production rates based on historical performance and expected future operating and investment activities, future oil and gas prices and quality differentials, future development and operating costs and assumed effects of regulation by government agencies.

Properties will, over a period of time, actually deliver oil and natural gas in quantities different than originally estimated due to changes in reservoir performance. The timing of future capital expenditures is subject to uncertainty. Projected future commodity prices and the operating and capital cost structure are subject to significant management judgment and currently, highly volatile. Actions by foreign governments to alter their respective royalty and tax regimes may have a significant and unpredictable impact.

Environment, Health and Safety

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. In international jurisdictions, environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. There are potential risks to the environment inherent in the business activities of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The potential inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.