Consolidated Financial Statements

Years ended December 31, 2014 and 2013

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valeura energy inc.

MANAGEMENT'S REPORT

The management of Valeura Energy Inc. is responsible for the preparation of all information included in the consolidated financial statements and Management's Discussion & Analysis ("MD&A"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information that is presented in the MD&A is consistent with the consolidated financial statements.

In preparation of the consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been presented fairly in all material respects.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the presentation of the consolidated financial statements.

KPMG LLP, an independent firm of chartered public accountants, was appointed by the shareholders to audit the consolidated financial statements of Valeura Energy Inc. and provide an independent professional opinion. Their report is presented with the consolidated financial statements below.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of independent directors. Valeura Energy Inc.'s Board of Directors has approved the consolidated financial statements based on the recommendation of the Audit Committee.

(signed) "Jim McFarland"
President and CEO

(signed) "Steve Bjornson"
VP Finance & CFO

March 10, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Valeura Energy Inc.

We have audited the accompanying consolidated financial statements of Valeura Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Report Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Valeura Energy Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

"KPMG LLP"
Chartered Accountants
Calgary, Canada

March 10, 2015

valeura energy inc.

Consolidated Statements of Financial Position

(thousands of Canadian Dollars)	**December 31, 2014**	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,928**	$ 6,511
Accounts receivable	**7,917**	7,533
Prepaid expenses and deposits	**277**	449
	14,122	14,493
Non-Current Assets		
Deposits *(note 5)*	**645**	-
Exploration and evaluation assets *(notes 7,8)*	**30,488**	29,998
Property, plant and equipment *(notes 7,8)*	**53,910**	52,782
	$ 99,165	$ 97,273
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 4,078**	$ 7,659
Decommissioning obligations *(note 10)*	**11,010**	8,835
Deferred taxes *(note 11)*	**6,114**	4,798
Shareholders' Equity		
Share capital *(note 13)*	**135,778**	135,778
Warrants	**5,971**	5,971
Contributed surplus	**12,452**	11,743
Accumulated other comprehensive loss	**(11,727)**	(11,638)
Deficit	**(64,511)**	(65,873)
	77,963	75,981
	$ 99,165	$ 97,273

See accompanying notes to the consolidated financial statements

See Commitments *(note 17)*
See Subsequent Events *(note 18)*

valeura energy inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the years ended December 31, 2014 and 2013

(thousands of Canadian Dollars)	December 31, 2014	December 31, 2013
Revenue		
Petroleum and natural gas sales	$ 24,998	$ 21,084
Royalties	(3,380)	(2,843)
Other Income	431	852
	22,049	19,093
Expenses		
Production	2,842	3,408
General and administrative *(note 12)*	5,363	5,794
Financing *(note 15)*	651	560
Foreign exchange loss (gain)	(92)	1,900
Share-based compensation *(notes 12,13)*	581	1,696
Exploration and evaluation *(note 7)*	75	13,327
Depletion and depreciation *(note 8)*	10,207	8,119
Impairment *(note 8)*	-	260
	19,627	35,064
Income (loss) from continuing operations before income taxes	2,422	(15,971)
Income taxes		
Deferred tax expense (recovery) *(note 11)*	1,332	(1,400)
Income (loss) from continuing operations	1,090	(14,571)
Income (loss) from discontinued operations (note 6)	272	(2,947)
Net income (loss)	1,362	(17,518)
Other comprehensive loss		
Currency translation adjustments	(89)	(5,903)
Comprehensive income (loss)	1,273	(23,421)
Net income (loss) per share *(note 13)*		
Basic and diluted – continuing operations	$ 0.02	$ (0.25)
Basic and diluted – discontinued operations	-	(0.05)
Basic and diluted	$ 0.02	$ (0.30)
Weighted average number of shares outstanding (thousands)	57,906	57,906

See accompanying notes to the consolidated financial statements

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Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(thousands of Canadian Dollars)	**December 31, 2014**	December 31, 2013
Cash was provided by (used in):		
Operating activities:		
Net income (loss) for the year	**$ 1,362**	$ (17,518)
Loss (income) from discontinued operations *(note 6)*	**(272)**	2,947
Depletion and depreciation *(note 8)*	**10,207**	8,119
Impairment *(note 8)*	**-**	260
Exploration and evaluation expense *(note 7)*	**75**	13,327
Share-based compensation *(notes 12,13)*	**581**	1,681
Financing expenses *(note 15)*	**651**	560
Unrealized foreign exchange loss (gain)	**(350)**	1,873
Deferred tax expense (recovery) *(note 11)*	**1,332**	(1,400)
Decommissioning costs settled *(note 10)*	**(219)**	(192)
Change in non-cash working capital *(note 14)*	**(1,226)**	2,022
Cash provided by operating activities – continuing operations	**12,141**	11,679
Cash provided by operating activities – discontinued operations *(note 6)*	**255**	328
Cash provided by operating activities	**12,396**	12,007
Investing activities:		
Property and equipment expenditures *(note 8)*	**(2,456)**	(5,412)
Exploration and evaluation expenditures *(note 7)*	**(8,844)**	(21,540)
Proceeds on asset disposition *(note 7)*	**454**	-
Change in non-cash working capital *(note 14)*	**(3,016)**	(7,251)
Cash used in investing activities – continuing operations	**(13,862)**	(34,203)
Cash provided by (used in) investing activities – discontinued operations *(note 6)*	**819**	(11)
Cash used in investing activities	**(13,043)**	(34,214)
Foreign exchange loss (gain) on cash held in foreign currencies	**64**	(313)
Net change in cash and cash equivalents	**(583)**	(22,520)
Cash and cash equivalents, beginning of year	**6,511**	29,031
Cash and cash equivalents, end of year	**$ 5,928**	$ 6,511

valeura energy inc.

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2014 and 2013

(thousands of Canadian Dollars)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, December 31, 2013	57,906	$ 135,778	$ 5,971	$ 11,743	$ (65,873)	$ (11,638)	$ 75,981
Net income for the year	-	-	-	-	1,362	-	1,362
Currency translation adjustments	-	-	-	-	-	(89)	(89)
Share-based Compensation	-	-	-	709	-	-	709
December 31, 2014	**57,906**	**$ 135,778**	**$ 5,971**	**$ 12,452**	**$ (64,511)**	**$ (11,727)**	**$ 77,963**

(thousands of Canadian Dollars)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, December 31, 2012	57,906	$ 135,778	$ 5,971	$ 9,678	$ (48,355)	$ (5,735)	$ 97,337
Net loss for the year	-	-	-	-	(17,518)	-	(17,518)
Currency translation adjustments	-	-	-	-	-	(5,903)	(5,903)
Share-based Compensation	-	-	-	2,065	-	-	2,065
December 31, 2013	**57,906**	**$ 135,778**	**$ 5,971**	**$ 11,743**	**$ (65,873)**	**$ (11,638)**	**$ 75,981**

See accompanying notes to the consolidated financial statements

1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Canada and the Netherlands, with branches operating in Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. Valeura's head office address is 1200, 202 – 6 Avenue SW, Calgary, AB, T2P 2R9.

2. Basis of Preparation

(a) Statement of compliance

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

Operating, transportation and marketing expenses in earnings are presented as a combination of function and nature in conformity with industry practices. Depletion, depreciation and finance expenses are presented in separate lines by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and share-based compensation are presented by their nature in the notes to the consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are discussed in note 4.

The Company's consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in Canadian Dollars, unless otherwise stated.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian Dollars which is Valeura's reporting currency. Valeura's foreign subsidiaries transact in currencies other than the Canadian Dollar and have a functional currency of Turkish Lira. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the statement of financial position. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive income or loss ("OCI") and are held within accumulated other comprehensive income or loss ("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.

(d) 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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the consolidated financial statements and have been applied consistently by the Company and its subsidiaries, except as detailed in note 3(k) below.

(a) Basis of consolidation

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in earnings.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial instruments:

Valeura's non-derivative financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

- Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.
- Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values.
- The Company's outstanding credit facilities are used only to issue letters of credit and any balance potentially carried on the credit facilities will be short-term in nature. Accordingly, the fair market value would approximate the carrying value before the carrying value is reduced for any remaining unamortized costs.

Non-derivative financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

There were no transfers within the hierarchy during the year.

(ii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement:

Exploration and evaluation expenditures:

Pre-licence costs are recognized in earnings as incurred. Exploration and evaluation ("E&E") costs, including the costs of acquiring licences and directly attributable general and administrative costs, are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration CGU is conducted, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, the CGU within which the intangible exploration and evaluation assets attributable to those reserves is first tested for impairment and then the applicable value is reclassified from exploration and evaluation assets to property, plant and equipment.

Development and production costs:

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in earnings.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20 percent to 50 percent per year.

(iv) Exploration and evaluation expense:

Upon determination that an exploration and evaluation CGU is impaired, the Company will transfer costs associated with the applicable CGU to exploration and evaluation expense in the period.

(d) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated via an impairment test.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, or CGUs. The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(e) Share based payments

The grant date fair value of options and performance warrants granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(g) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Royalty income is recognized as it accrues in accordance with the terms of the royalty agreements.

(h) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in earnings using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in earnings, using the effective interest method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Earnings per share

Basic earnings per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(k) Recent accounting standards and interpretations

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.

4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment ("PP&E") and intangible exploration and evaluation ("E&E") assets:

The fair value of PP&E recognized in an acquisition, is based on market values. The market value of PP&E is the estimated amount for which property, plant & equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets is estimated based on either internally or externally prepared evaluations of these assets.

(ii) Cash and cash equivalents, deposits, accounts receivable, accounts payable and accrued liabilities and credit facilities:

The fair value of cash and cash equivalents, deposits, accounts receivable, accounts payable and accrued liabilities and outstanding credit facilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2014 and December 31, 2013, the fair value of these balances approximated their carrying values due to their short term to maturity.

(iii) Stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on the weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, the risk-free interest rate based on government bonds, and an estimated forfeiture rate.

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

5. Non-Current Deposits

The Company placed a deposit in the amount of $0.6 million (2013 - $nil) with the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") in late 2014. This deposit is security for decommissioning or abandonment obligations on the Company's Turkish licenses. As the expected abandonment date for these assets is more than one year from December 31, 2014, this deposit has been classified as non-current in the Company's financial statements.

6. Discontinued Operations

On August 19, 2014, the Company completed the sale of its non-core petroleum and natural gas properties in Canada for proceeds of $0.8 million. Prior to the discontinued operations, Valeura had two reportable segments consisting of Canada and Turkey. Results from the Company's discontinued operations in Canada are summarized as follows:

	December 31, 2014	December 31, 2013
Petroleum and natural gas revenue	**$ 653**	$ 966
Royalties	**(73)**	(63)
Other income	**19**	-
Production expense	**(344)**	(549)
Decommissioning costs settled	**-**	(26)
Cash provided by discontinued operations	**255**	328
Decommissioning costs settled	**-**	26
Financing expense	**(14)**	(9)
Depletion	**(109)**	(276)
Impairment	**-**	(3,026)
Operating income (loss) from discontinued operations	**132**	(2,957)
Gain on sale of discontinued operations	**140**	10
Income (loss) from discontinued operations	**$ 272**	$ (2,947)

7. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2012	$ 48,595
Additions	21,540
Transfer to property, plant and equipment *(note 8)*	(22,158)
Capitalized share-based compensation	384
Exploration and evaluation expense	(13,327)
Effects of movements in exchange rates	(5,036)
Balance, December 31, 2013	29,998
Additions	$ 8,844
Dispositions	(454)
Transfer to property, plant and equipment *(note 8)*	(7,927)
Capitalized share-based compensation	128
Exploration and evaluation expense	(75)
Effects of movements in exchange rates	(26)
Balance, December 31, 2014	**$ 30,488**

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

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. Exploration and evaluation expense represent the Company's share of impairment on E&E Cash Generating Units ("CGUs") or pre-exploration and evaluation costs.

The ultimate recovery of exploration and evaluation costs in Turkey is dependent upon the Company obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercially viable exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

(a) Recoverability of exploration and evaluation assets

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, by allocating the E&E assets to appropriate CGUs.

(b) Exploration and evaluation expense

The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized in earnings.

E&E expense consists of exploration projects that are considered to have a lower fair value when compared to book value. E&E expense for the year ended December 31, 2014 was $0.1 million (2013 – $13.3 million).

8. Property, Plant and Equipment

Cost		Total
Balance, December 31, 2012	$	68,699
Additions		5,412
Discontinued operations (net)		454
Transfer from exploration and evaluation assets *(note 7)*		22,158
Change in decommissioning obligations *(note 10)*		(476)
Effects of movements in exchange rates		(6,194)
Balance, December 31, 2013		90,053
Additions		2,456
Discontinued operations (net)		(14,438)
Transfer from exploration and evaluation assets *(note 7)*		7,927
Change in decommissioning obligations *(note 10)*		2,767
Effects of movements in exchange rates		(45)
Balance, December 31, 2014	**$**	**88,720**

Accumulated depletion and depreciation		Total
Balance, December 31, 2012	$	27,916
Depletion and depreciation expense		8,119
Impairment		260
Discontinued operations (net)		3,302
Effects of movements in exchange rates		(2,326)
Balance, December 31, 2013		37,271

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

Depletion and depreciation expense		10,207
Discontinued operations		(12,592)
Effects of movements in exchange rates		(76)
Balance, December 31, 2014	**$**	**34,810**

Net book value		Total
Balance, December 31, 2013	$	52,782
Balance, December 31, 2014	**$**	**53,910**

The ultimate recovery of property, plant and equipment costs in Turkey is dependent upon the Company obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercially viable exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

(a) Impairment testing

IFRS requires an impairment test to assess the recoverable value of PP&E within each CGU upon initial adoption and, subsequently whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell.

The Company conducted an assessment of impairment triggers for the Company's CGUs for the year ended December 31, 2014. The triggers assessed were market capitalization compared to the carrying value of PP&E assets, the year-end commodity price forecast and any technical revisions included in the Company's reserve report, and the Company's drilling success during the year. After assessing these impairment triggers the Company concluded that there were no indicators of impairment on its PP&E assets.

As a result of impairment triggers related to negative technical revisions for the year ended December 31, 2013, the carrying value of Valeura's Edirne CGU exceeded its fair values less costs to sell resulting in an impairment of $0.3 million. The impairment of PP&E may be reversed if the fair value of an impaired CGU increases in future periods.

The following table summarizes amounts recognized as impairment for PP&E assets:

		Total
Cumulative Impairment, December 31, 2012	$	6,452
Impairment of PP&E assets – continuing operations		260
Impairment of PP&E assets – discontinued operations		3,026
Cumulative impairment, December 31, 2013		9,738
Impairment of PP&E assets – discontinued operations		(9,478)
Cumulative impairment – continuing operations, December 31, 2014	**$**	**260**

(b) Contingencies

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

(c) Turkey

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of $84.8 million at December 31, 2014 (2013 – $73.2 million) associated with the development of the Company's proved plus probable reserves.

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

9. 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 an amount on this credit facility. Letters of credit totaling US$0.1 million were issued in 2014 (2013 – US$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.

10. Decommissioning Obligations

	December 31, 2014	December 31, 2013
Decommissioning obligations, beginning of year	**$ 8,835**	$ 9,441
Obligations incurred	**134**	135
Obligations settled	**(219)**	(192)
Change in estimates	**2,633**	(611)
Discontinued operations	**(1,044)**	416
Accretion of decommissioning obligations *(note 15)*	**651**	560
Effects of movements in exchange rates	**20**	(914)
Decommissioning obligations, end of year	**$ 11,010**	$ 8,835

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The Company abandoned several wells during 2014 and the actual decommissioning costs were higher than originally estimated. As a result of the higher than expected decommissioning costs the Company has adjusted its estimates upwards on all remaining wells resulting in a significant increase in overall decommissioning obligations during the year.

The following significant assumptions were used to estimate the decommissioning obligations:

	December 31, 2014	December 31, 2013
Undiscounted cash flows	**$ 25,020**	$ 19,603
Risk free rate – Turkey	**9.0%**	10.0%
Inflation rate – Turkey	**9.0%**	8.0%
Timing of cash flows	**2-19 years**	2-17 years

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

11. Income Taxes

A reconciliation of the expected tax expense (recovery) to the actual provision for deferred taxes is as follows:

	December 31, 2014	December 31, 2013
Income (loss) before taxes from continuing operations	$ 2,422	$ (15,971)
Combined federal and provincial tax rate	25.00%	25.00%
Expected income tax recovery	606	(3,992)
Non-taxable items and other	64	404
Foreign tax rate differential	(333)	350
Change in unrecognized deferred tax assets	995	1,838
Deferred income tax expense (recovery)	$ 1,332	$ (1,400)

The deferred income tax rate applied to the temporary differences in both 2014 and 2013 was 25.0 percent. The Turkish tax rate for 2014 and 2013 is 20.0 percent. The comparative December 31, 2013 deferred tax information has been updated to reflect continuing operations only.

The components of the deferred tax liability are as follows:

	December 31, 2014	December 31, 2013
Property, plant and equipment and exploration and evaluation assets	$ (13,268)	$ (12,389)
Decommissioning obligations	2,202	1,558
Non-capital losses and other	4,952	6,033
	$ (6,114)	$ (4,798)

The temporary differences that determine the unrecognized deferred tax assets are as follows:

	December 31, 2014	December 31, 2013
Property, plant and equipment and exploration and evaluation assets	$ (14)	$ -
Share issuance costs	1,668	3,490
Non-capital losses and other	42,771	36,218
	$ 44,425	$ 39,708

The Company has tax assets of approximately $84.3 million at December 31, 2014 (2013 – $95.3 million) available for deduction against future taxable income. Cumulative non-capital loss carry-forwards in the amount of $64.7 million at December 31, 2014 (2013 - $64.0 million) expire between 2016 and 2033.

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

A continuity of the deferred income tax liability for 2013 and 2014 is detailed in the following tables:

Movement in temporary differences during the year	December 31, 2012	Recognized in profit or loss	Other comprehensive income (loss)	December 31, 2013
Property, plant and equipment and exploration and evaluation assets	$ (11,664)	$ (1,917)	$ 1,191	$ (12,390)
Decommissioning obligations	1,763	(30)	(175)	1,558
Non-capital losses	2,991	2,842	(343)	5,490
Foreign exchange and other	53	505	(14)	544
	$ (6,857)	$ 1,400	$ 659	$ (4,798)

Movement in temporary differences during the year	December 31, 2013	Recognized in profit or loss	Other comprehensive income (loss)	**December 31, 2014**
Property, plant and equipment and exploration and evaluation assets	$ (12,390)	$ (900)	$ 23	**$ (13,268)**
Decommissioning obligations	1,558	650	(7)	**2,202**
Non-capital losses	5,490	(1,201)	2	**4,290**
Foreign exchange and other	544	119	(2)	**662**
	$ (4,798)	$ (1,332)	$ 16	**$ (6,114)**

Deferred income tax is a non-cash item relating to the temporary differences between the accounting and tax basis of Valeura's assets and liabilities and has no immediate impact on the Company's cash flows.

12. Administrative Expenses

The components of administrative expenses are as follows:

For the years ended	**December 31, 2014**	December 31, 2013
Cash:		
Salaries and benefits [1]	**$ 3,259**	$ 3,429
Other [2]	**2,877**	3,176
	6,136	6,605
Operating and overhead recoveries	**(4)**	(9)
Capitalized overhead [3]	**(769)**	(802)
General and administrative	**5,363**	5,794
Non-cash:		
Share-based compensation *(note 13)*	**709**	2,080
Capitalized share-based compensation [3]	**(128)**	(384)
Share-based compensation	**$ 581**	$ 1,696

(1) Includes salaries, benefits and bonuses earned by all Directors, Officers and employees of the Company.
(2) Includes costs such as rent, legal, consulting, insurance, travel, office, business development and other business expenses incurred by the Company.
(3) Includes a portion of salaries, benefits and share-based compensation directly attributable to the exploration and development activities of the Company.

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

Compensation for Executive Officers and Directors are comprised of the following:

For the years ended	December 31, 2014	December 31, 2013
Salaries and benefits (1)	$ 1,311	$ 1,386
Share-based compensation (2)	450	1,150
Executive Officers and Directors compensation	$ 1,761	$ 2,536

(1) Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprised of: Chairman of the Board, President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President of Operations, Vice President of Engineering and other independent Directors.

(2) Represents the amortization of share-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Company's Stock Option Plan.

13. Share Capital

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

(b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended December 31, 2014 is 57,906,135 (2013 – 57,906,135). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

(c) Performance warrants

Valeura has the following performance warrants outstanding to directors, officers and certain employees of the Company:

	Number of Performance Warrants	Weighted average exercise price
Balance, December 31, 2013 and December 31, 2014	**2,796,750**	**$ 2.00**
Exercisable at December 31, 2014	**2,796,750**	**$ 2.00**

The vesting of the performance warrants was based on the value attributed to the common shares at certain points in time and the continued employment of the relevant holder. The market price and time vesting conditions for all outstanding performance warrants have been met and the performance warrants are fully vested.

The following table summarizes information about the performance warrants outstanding at December 31, 2014:

Exercise prices	Outstanding at December 31, 2014	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2014	Weighted average exercise price
$2.00	2,796,750	0.02	$ 2.00	2,796,750	$ 2.00

The performance warrants expired unexercised on January 8, 2015.

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

(d) Stock options

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years.

The number and weighted average exercise prices of share options are as follows:

	Number of Options	Weighted average exercise price
Balance, December 31, 2012	3,379,000	$ 2.46
Granted	1,689,500	1.00
Forfeited	(47,250)	2.37
Cancelled	(3,174,000)	2.44
Balance, December 31, 2013	1,847,250	1.15
Granted	1,587,000	0.64
Forfeited	(260,250)	2.05
Balance, December 31, 2014	**3,174,000**	**$ 0.82**
Exercisable at December 31, 2014	**529,002**	**$ 1.00**

On December 18, 2013, directors, officers and employees of the Company voluntarily surrendered stock options for a nominal payment of $0.005 per option. This resulted in the cancellation of 3,174,000 stock options and the immediate recognition of the remaining $0.4 million of share-based compensation expense associated with these options.

The following table summarizes information about the stock options outstanding at December 31, 2014:

Exercise prices	Outstanding at December 31, 2014	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2014	Weighted average exercise price
$0.64	1,587,000	6.2	$ 0.64	-	$ -
$1.00	1,587,000	5.2	$ 1.00	529,002	$ 1.00
	3,174,000	5.7	$ 0.82	529,002	$ 1.00

The fair value, at the grant date during the year, of the stock options issued was estimated using the Black-Scholes model with the following weighted average inputs:

Assumptions	**December 31, 2014**	December 31, 2013
Risk free interest rate (%)	**1.6**	1.5
Expected life (years)	**4.5**	4.5
Expected volatility (%)	**100.0**	100.0
Forfeiture rate (%)	**5.0**	5.0
Weighted average fair value of options granted	**$ 0.46**	$ 0.72

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

14. Supplemental Cash Flow Information

	December 31, 2014	December 31, 2013
Change in non-cash working capital:		
Accounts receivable	**$ (384)**	$ (670)
Prepaid expenses and deposits	**172**	(10)
Deposits – non-current	**(645)**	-
Accounts payable and accrued liabilities	**(3,581)**	(4,417)
Movements in exchange rates	**196**	(132)
	(4,242)	(5,229)

The change in non-cash working capital has been allocated to the following activities:

Operating	**(1,226)**	2,022
Financing	**-**	-
Investing	**(3,016)**	(7,251)
	$ (4,242)	$ (5,229)

15. Financing Expenses

	December 31, 2014	December 31, 2013
Accretion of decommissioning obligations	**$ 651**	$ 560

16. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at year-end is as follows:

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

	December 31, 2014	December 31, 2013
Trade and other receivables	**$ 7,917**	$ 7,533

Trade and other receivables:

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. Receivables from Turkish petroleum and natural gas marketers are normally collected on the 45th day of the month following production. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures.

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can cash call for major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2014 the Company's receivables consisted of $7.4 million (2013 – $6.5 million) of receivables from petroleum and natural gas marketers which has subsequently been substantially collected, $0.5 million (2013 – $0.7 million) from joint venture partners, and $nil (2013 – $0.3 million) of other accounts receivable. The Company does not consider any receivables to be past due.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Foreign currency exchange rate risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. World oil and gas prices are quoted in US Dollars and the price received by the Company's Turkish branches can be affected by the Turkish Lira (TL)/United States Dollar (USD) exchange rate, which fluctuates over time. The Company's petroleum and natural gas sales are conducted in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira (TL) to Canadian Dollar (CAD) exchange rate. A decrease in the value of the Turkish Lira against the Canadian Dollar will result in a decrease in revenue and a decrease in operating costs in the Company's consolidated financial statements. Correspondingly, an increase in the value of the Turkish Lira against the Canadian Dollar will result in an increase in revenue and an increase in operating costs in the Company's consolidated financial statements.

The Company's seismic and drilling operations and related contracts in Turkey are based in US Dollars. Material increases in the value of the US Dollar against the Turkish Lira or Canadian Dollar will negatively impact the Company's costs of drilling and completions activities. Future CAD/USD and CAD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it has no debt.

Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian Dollar and Turkish Lira, the Canadian Dollar and United States Dollar, and global economic events that dictate the levels of supply and demand.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash which is used to finance all operating and capital expenditures.

Capital management:

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through 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.

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 licenses due to failure to meet drilling deadlines.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. In the future, if the Company establishes and 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. 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.

17. Commitments

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 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.4 as at December 31, 2014.