valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2016 and 2015

(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 May 11, 2016 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month periods ended March 31, 2016 and 2015. 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, 2015 ("2015 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

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2015 audited consolidated financial statements, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements, which have been condensed or omitted in the interim statements. The unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2015.

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 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" 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 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 operations:

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

	Three months ended	
	March 31, 2016	March 31, 2015
Cash provided by operating activities	**$ 1,178**	$ 4,058
Decommissioning costs incurred	**-**	19
Change in non-cash working capital	**791**	(404)
Funds flow from operations	**$ 1,969**	$ 3,673

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: the future completion of additional net pay in the Osmancik and Danismen formations in the Bati Gurgen-1 well and Osmancik formation in the Yayli-1 well; the planned drilling program on the Banarli licences and TBNG JV lands in 2016 and the associated timelines; the extent of over-pressure below approximately 2,500 metres on the Banarli licences and certain TBNG JV lands and the potential for a basin-centered gas play; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; tieing in new wells and getting these on-stream; the timing, estimated costs and ability to fund each of the foregoing; and the plans to attract a joint venture partner(s) to drill the deep, potential basin-centered gas play on the Banarli licences and certain joint venture lands in the Thrace Basin.

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, fracing and re-completion activity on the expected timelines; the prospectivity of the Banarli licences; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; the ability to meet drilling deadlines and other requirements under licences and leases; the ability to attract partners and negotiate farm-out arrangements; field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, including stock exchange approvals, both domestically and internationally; continued operations of and approvals forthcoming from the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") in a manner consistent with past conduct; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability 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 Turkey; 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 and development plans and anticipated costs, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of fracing and other specialized oilfield equipment and service providers, changes in the operator's or partners' plans 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 availability of drilling rigs and equipment and 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 the Banarli licences); 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 in Turkey; the risks of increased costs and delays in timing related to protecting the safety and security of Valeura's personnel and property; the risk of commodity and 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 2015 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	
	March 31, 2016	March 31, 2015
Financial		
Petroleum and natural gas sales	**$ 4,328**	$ 7,167
Net Income (loss)	**(992)**	107
Per share, basic and diluted	**(0.02)**	0.00
Funds flow from operations[1]	**1,969**	3,673
Per share, basic and diluted	**$ 0.03**	$ 0.06
Production volumes		
Natural gas (Mcf/d)	**4,697**	7,273
Crude oil (bbl/d)	**9**	10
Total (boe/d)	**792**	1,223
Sales prices		
Natural gas (per Mcf)	**$ 10.05**	$ 10.88
Crude oil (per bbl)	**39.75**	50.19
Total (per boe)	**60.09**	65.14
Capital expenditures (net)	**2,704**	1,435
Working capital	**6,467**	12,288
Cash	**$ 3,726**	$ 8,082
Weighted average shares outstanding		
Basic and diluted (thousands)[2]	**57,906**	57,906

Outstanding Share Data

	March 31, 2016
Common shares	57,906,135
Stock options	5,790,000
Fully diluted	63,696,135

As part of the February 11, 2011 private placement financing the Company issued 132,692,175 share purchase warrants with a strike price of $0.55 per warrant. The share purchase warrants were not part of the 10:1 share consolidation completed in 2011, and as such, 10 share purchase warrants were required to acquire one common share in the Company at a price of $5.50 per common share. These share purchase warrants expired unexercised on February 29, 2016 and are no longer included in the fully diluted share calculation in the above outstanding share data table. The fully diluted number of shares outstanding at May 11, 2016 is 63,696,135.

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

[2] The weighted average number of common shares outstanding is not increased for outstanding stock options and warrants when the effect is anti-dilutive.

The Company

Valeura and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. 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 included the Mediterranean Basin. 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 the country. As at March 31, 2016, the Company held an interest in 21 exploration licences and production leases comprising approximately 0.63 million gross acres (0.31 million net acres) primarily in the Thrace Basin (87% of net lands) of northwest Turkey and the Anatolian Basin (13% of net lands) of southeast Turkey.

The assets in the Thrace Basin include a 100 percent working interest in two exploration licences in an early exploration and production stage, a 40 percent working interest in 14 production leases and exploration licences under a joint venture with an established natural gas production and marketing business and a 35 percent working interest in three production leases with mature shallow gas production operations. The Thrace Basin lands have both conventional shallow gas exploration and development potential and unconventional tight gas potential. The tight gas play is in early-stage development after more than four years of activity aimed at de-risking the play. Some of these lands are also believed to have potential for a basin-centered gas play in over-pressured formations below approximately 2,500 metres. The assets in the Anatolian Basin include two exploration licences with oil potential.

In June 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. The reader is referred to the Company's 2015 AIF for a detailed description of the old and new licencing terms in Turkey. Voluntary conversion of existing exploration licences to the new regime was encouraged, where possible, but which required 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 and 2015, Valeura and its joint venture partners made applications to the GDPA to convert a number of existing exploration licences to new exploration licences or production leases. As at March 31, 2016 the GDPA had approved the conversion of all eligible exploration licences held by the Company and its joint venture partners.

Turkish Operations

Thrace Basin

TBNG-PTI Asset Acquisition

On June 8, 2011, the Company closed its largest 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 working interest) for $53.7 million. This acquisition closed contemporaneously with acquisitions made by affiliates of TransAtlantic Petroleum Ltd. ("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 natural gas production in the Thrace Basin, interests in 293,670 gross acres of onshore and offshore land (117,468 net) as at March 31, 2016, and exposure to a significant unconventional tight gas opportunity in the Thrace Basin. The lands encompass twelve production leases and two exploration licences, all located onshore, following the conversion process to the new petroleum law. As at March 31, 2016, applications by the TBNG JV for one new exploration licence and two production leases remain under review by the GDPA.

Natural gas is currently produced from approximately 100 wells (gross) on the TBNG JV lands. Approximately 65 percent of the natural gas produced in Q1 2016 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500 to 1,500 metres. The gas, which is composed primarily of methane, is gathered, dehydrated and compressed in owned facilities and distributed on an owned sales line network directly to more than 55 light industry customers. TransAtlantic manages the marketing arrangements on behalf of the parties under the joint venture operating agreement.

The TBNG JV has had a program to exploit the shallow gas resource potential on its lands, including well workovers, 3D seismic and new drilling.

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 1,500 to 3,700 metres, depending on the area. Accordingly, the Company focussed the majority of its capital program on the TBNG JV lands in the 2011 to 2014 period on tight gas exploitation. This has included a program to re-enter selected existing medium-depth wells to frac selected sandstone units, as well as drilling and fracing 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 March 31, 2016. Natural gas production from tight gas sands in these fraced wells contributed approximately 35 percent of the natural production from the TBNG JV lands in Q1 2016.

Banarli Exploration Licences

On April 8, 2013, the Company announced that it had been awarded the Banarli Licence 5104 on a 100 percent basis. The exploration licence originally covered an area of 118,598 gross acres near the centre and deepest part of the Thrace Basin and had 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. During Q2 2015, the GDPA approved the Company's application to convert the Banarli licence under the new petroleum law to two new contiguous exploration licences encompassing an area of 133,840 gross acres. The clock on the initial term of the licences has been re-started and has also been extended to five years ending on June 27, 2020. During the initial five-year term, the Company will be required to complete, in aggregate on the two licences, 152 square kilometres of 3D seismic and drill three wells, including a 2,000 metre well in each of year one and year two and a 3,800 metre well in year four. The total assigned value to this program is US$9.15 million and an associated two percent bond has been submitted to the GDPA. As at March 31, 2016, the Company had already completed the 3D seismic commitment and two of the three-well drilling commitments.

With the successful conversion of the Banarli licences in 2015 and the late 2014 drilling success just south of the Banarli licences on the TBNG JV lands at Gurgen-1, Valeura has shifted its corporate strategy to focus on exploration for both shallow conventional gas and deeper unconventional tight gas at Banarli. As an initial step, Valeura acquired 152 square kilometres of 3D seismic in the second quarter of 2015 and merged this with the 3D seismic at Osmanli and Tekirdag providing an interpreted data set covering more than 580 square kilometres. Valeura subsequently drilled two vertical exploration wells at Banarli in November and December 2015.

The first of these exploration wells Bati Gurgen-1 was drilled to a depth of 2,735 metres into the top of the Teslimkoy member of the Mezardere formation, with the primary target being conventional gas in the Osmancik formation. The relatively tight Teslimkoy member was first evaluated with a diagnostic fracture injection test which confirmed that the Teslimkoy member is over-pressured. However the net pay encountered to this depth in the Teslimkoy member was not sufficient to warrant a frac. Therefore approximately 12 metres of net pay was initially completed in the Osmancik formation at a depth of approximately 1,500 metres and the well was tied-in to a TBNG JV dehydration facility located about 3 kilometres away. Gas sales commenced from the Bati Gurgen-1 well on March 12, 2016. The gas is being sold to the TBNG JV, which in turn is expected to distribute the gas to its existing customer base. The Danismen formation located above the Osmancik formation also appears attractive based on log analysis. Additional net pay in the Osmancik and Danismen formations will likely be completed in the next one to two months.

The second exploration well Yayli-1 was drilled to a depth of 2,914, penetrating an attractive interval in the Osmancik formation with shallow gas potential. The well also penetrated multiple over-pressured, tighter stacked sands in the Teslimkoy member. Diagnostic fracture injection tests on several intervals confirmed that the Teslimkoy formation in the Yayli-1 well is over-pressured to the same extent as encountered in the Bati Gurgen-1 well. Two fracs have been completed in the Yayli-1 well and extensively evaluated to provide important calibration data to assist in evaluating the potential of a basin-centered gas play below 2,500 metres on the Banarli licences and certain TBNG JV lands. Valeura plans to move up-hole in the Yayli-1 well to complete indicated conventional gas pay in the Osmancik formation.

Edirne Asset Acquisition

The Company closed its first small acquisition in the Thrace Basin with the purchase of a 35 percent working interest in natural gas assets acquired 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 is the operator. 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. Edirne is a mature asset and currently provides only small sales volumes of less than 30 Mcf/d (net).

Anatolian Basin

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. TransAtlantic is the operator. In July 2012, the operator re-entered the Alibey-1 well, a small Mardin formation heavy oil discovery, and drilled 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 but at a high water cut. 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 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 continue to execute its strategy to shift emphasis from its non-operated 40 percent working interest in the TBNG JV to its 100 percent owned and operated Banarli licences in the Thrace Basin.

In 2016, the Company expects to complete a capital expenditure program in the range of $13 to 15 million (net) in Turkey focused on natural gas development in the Thrace Basin and funded from cash on hand and cash flow. The work program and budget aims to achieve the following key objectives in 2016:

- Grow volumes on Valeura's 100 percent owned and operated Banarli licences by drilling new conventional gas wells targeting the Osmancik and Danismen formations offsetting the Bati Gurgen-1 and Yayli-1 wells drilled in late 2015;
- Mitigate natural declines on the TBNG JV lands from a work program funded by operating cash flow from the JV;
- Achieve corporate average sales volumes in the range of 1,100 to 1,200 boe/d (net); and
- Continue to seek a farm-in partner(s) to further advance a drilling and fracing program aimed at proving-up a potential basin-centered gas play in over-pressured formations below approximately 2,500 metres on the Banarli licences and certain TBNG JV lands.

At Banarli, capital expenditures in 2016 are budgeted in the range of $11 to 12 million. This includes the completion and tie-in of the Bati Gurgen-1 and Yayli-1 wells and the drilling, completion and tie-in of up to three new wells targeting conventional natural gas down to a depth of approximately 2,500 metres. With success, it is expected that these new wells could be quickly tied-into existing infrastructure under the current gas contract with the TBNG JV.

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

Results of Operations

	Three months ended	
	March 31, 2016	March 31, 2015
Petroleum and natural gas sales	**$ 4,328**	$ 7,167
Royalties	**(579)**	(969)
Production costs	**(447)**	(742)
Operating netback[1]	**3,302**	5,456
Other income	**233**	122
General and administrative expenses	**(1,373)**	(1,647)
Interest expense	**-**	(19)
Realized foreign exchange loss	**(193)**	(239)
Funds flow from operations[1]	**1,969**	3,673
Non-cash expenses		
Share-based compensation	**(153)**	(170)
Accretion on decommissioning liabilities	**(227)**	(202)
Unrealized foreign exchange loss	**(481)**	(258)
Depletion and depreciation	**(1,832)**	(2,807)
Deferred tax expense	**(268)**	(129)
Net income (loss)	**$ (992)**	$ 107

Sales Volumes

	Three months ended	
	March 31, 2016	March 31, 2015
Natural gas (Mcf/d)	**4,697**	7,273
Crude oil (bbl/d)	**9**	10
Total (boe/d)	**792**	1,223

Sales volumes in Q1 2016 decreased to 792 barrels of oil equivalent per day ("boe/d") compared to 1,223 boe/d for the same period in 2015 due to natural declines and reduced drilling and other capital expenditures on the TBNG JV lands. First gas sales from the Bati Gurgen-1 well at Banarli commenced on March 12, 2016. Sales volumes in April 2016 averaged approximately 1,000 boe/d of which 45 percent was from Banarli.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2016	March 31, 2015
Petroleum and natural gas sales	**$ 60.09**	$ 65.14
Royalties	**(8.04)**	(8.81)
Production costs	**(6.20)**	(6.75)
Operating netback	**$ 45.85**	$ 49.58

[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)

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2016**	March 31, 2015
Natural gas – BOTAS (per Mcf)[1]	**TL 21.93**	TL 21.93
Natural gas – BOTAS (per Mcf)	**$ 10.26**	$ 11.06
Average exchange rate (TL/CAD)	**2.1370**	1.9830

	Three months ended	
Average realized prices	**March 31, 2016**	March 31, 2015
Natural gas (per Mcf)	**$ 10.05**	$ 10.88
Crude oil (per bbl)	**39.75**	$ 50.19

The following table shows the percentage change in Valeura's realized prices for Q1 2016 compared to Q1 2015:

Natural gas	(8%)
Crude oil	(21%)

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"). The benchmark price has remained unchanged since October 1, 2014. The effective Canadian Dollar converted benchmark price is $10.26 per thousand cubic feet ("Mcf") for Q1 2016. 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 Q1 2016 of $10.05 per Mcf represents a two percent discount to the BOTAS benchmark price.

The Company's Q1 2016 average realized natural gas price in Turkey decreased by eight percent to $10.05 per Mcf from $10.88 per Mcf in Q1 2015 due primarily to the devaluation of the Turkish Lira against the Canadian Dollar.

Natural gas from the Bati Gurgen-1 well is being sold to the TBNG JV, net of a transportation and marketing fee, and is being distributed to existing TBNG JV customers located north of Banarli. Valeura receives some benefit from this fee arrangement and the associated proceeds by virtue of its 40 percent working interest in the TBNG JV facilities. The average price realization for Banarli gas sales in March was $9.56/Mcf, which compares to TBNG JV natural gas price realizations of $9.97/Mcf in the same month.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2016	March 31, 2015
Natural gas	**$ 4,296**	7,120
Crude oil	**32**	47
Total revenues	**$ 4,328**	$ 7,167

The composition of petroleum and natural gas sales revenues for Q1 2016 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q1 2016 decreased in comparison to the same period in 2015 due

[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 2015 AIF for further discussion.

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

primarily to lower volumes and lower realized natural gas prices in Turkey as a result of the devaluation of the Turkish Lira against the Canadian Dollar.

Royalties

	Three months ended	
	March 31, 2016	March 31, 2015
Royalties	**$ 579**	$ 969
Percentage of revenue	**13.4%**	13.5%

Royalties in Q1 2016 decreased in comparison to the same period in 2015 as a result of lower petroleum and natural gas sales revenues. Revenues are subject to a 12.5 percent government royalty and certain overriding royalties of approximately one percent.

Production Costs

	Three months ended	
	March 31, 2016	March 31, 2015
Production costs	**$ 447**	$ 742
$ per boe	**6.20**	6.75

Production costs in Q1 2016 decreased in comparison to the same period in 2015 due primarily to cost saving initiatives combined with the weakening of the Turkish Lira against the Canadian Dollar.

General and Administrative Expenses

	Three months ended	
	March 31, 2016	March 31, 2015
General and administrative expenses	**$ 1,762**	$ 1,926
Business development	**-**	15
Total	**1,762**	1,941
Recoveries	**(389)**	(294)
Total general and administrative expenses	**$ 1,373**	$ 1,647

Total general and administrative expenses for Q1 2016 decreased when compared to the same period in 2015 due primarily to no discretionary employee bonuses being paid in Q1 2016, partially offset by employee severance expenses associated with a reduced full-time staff in Calgary effective March 31, 2016. Payment of any bonuses in 2016 will be conditional on achieving certain corporate milestones by September 1, 2016.

Foreign Exchange

During Q1 2016, the Company recorded a foreign exchange loss of $0.7 million, compared to a foreign exchange loss of $0.5 million for the same period in 2015. The foreign exchange loss in Q1 2016 is due to the weakening of the Turkish Lira against the Canadian Dollar.

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.

The recent volatility and weakness in the value of the Turkish Lira may impair the ability of the Company to manage foreign exchange 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.

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

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, including its exposure to the Turkish Lira and any possibilities that may exist to mitigate such exposure.

Other Income

During Q1 2016, the Company recorded other income of $0.2 million compared to $0.1 million for the same period in 2015. Other income is comprised of processing and marketing income and interest income related to cash on hand. The increase in Q1 2016 is attributed to higher third party volumes processed.

Funds Flow from Operations[1]

Funds flow from operations for Q1 2016 was $2.0 million compared to $3.7 million for the same period in 2015. The decrease in funds flow from operations was due to lower sales revenue, partially offset by lower unit production costs and general and administrative expenses.

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. Share-based compensation expense for Q1 2016 was $153,000 compared to $170,000 for the same period in 2015.

The Company granted 613,000 options with an exercise price of $0.75 on March 23, 2016.

Accretion on Decommissioning Liabilities

	Three months ended	
	March 31, 2016	March 31, 2015
Accretion on decommissioning liabilities	**$ 227**	$ 221

Accretion on decommissioning liabilities for Q1 2016 increased in comparison to the same period in 2015 due to an increase in well locations and the associated impact on decommissioning obligations.

Depletion and Depreciation

Depletion and depreciation for Q1 2016 was $1.8 million compared to $2.8 million for the same period in 2015. The decrease in depletion and depreciation was primarily due to lower 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 Q1 2016 was $25.42/boe compared to $25.50/boe for the same period in 2015.

Deferred Tax

Deferred tax for Q1 2016 was an expense of $0.3 million compared to an expense of $0.1 million for the same period in 2015. 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.

[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)

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 net earnings.

The currency translation adjustment for Q1 2016 was a loss of $2.0 million compared to a loss of $2.1 million for the same period in 2015 reflecting the fluctuation in the value of the Turkish Lira compared to the Canadian Dollar in the respective periods. In Q1 2016, the currency translation adjustment loss was due to the weakening of the Turkish Lira against the Canadian Dollar.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
	March 31, 2016	March 31, 2015
Geological and geophysical	**$ 557**	$ 476
Drilling & completions	**1,309**	656
Equipping & facilities	**771**	103
Workovers & recompletions	**66**	199
Other	**1**	1
Total	**$ 2,704**	$ 1,435

Turkey

Capital spending for Q1 2016 was $2.7 million, including $0.6 million for geological and geophysical operations, $1.3 million for drilling and completions and $0.8 million for equipping and facilities.

During Q1 2016, the Company continued to focus on its 100 percent owned and operated Banarli licences in the Thrace Basin. Valeura drilled two vertical exploration wells at Banarli in November and December 2015. In Q1 2016, the first of these exploration wells, Bati Gurgen-1, was tied-in to a TBNG JV dehydration facility and gas sales commenced on March 12, 2016. The second exploration well, Yayli-1, has undergone an extensive fracture stimulation program in the over-pressured tight sands in the Teslimkoy member as a first step in the completion program.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2016	March 31, 2015
Opening cash position	**$ 6,973**	$ 5,928
Inflow of funds		
Funds from operations	**1,969**	3,673
	1,969	3,673
Outflow of funds		
Capital expenditures	**(2,704)**	(1,435)
Decommissioning costs incurred	**-**	(19)
Changes in working capital and foreign exchange on cash	**(2,512)**	(65)
	(5,216)	(1,519)
Closing cash position	**$ 3,726**	$ 8,082

Capital Funding and Resources

As at March 31, 2016, Valeura's working capital balance was $6.5 million including cash of $3.7 million. Valeura's 2016 opening cash position was $7.0 million. In Q1 2016, the Company utilized this opening cash balance plus funds flow from operations of $2.0 million to fund an exploration and development capital program of $2.7 million. The resultant cash balance at March 31, 2016 was $3.7 million after reflecting a $2.5 million outflow of funds attributed to changes in working capital and foreign exchange on cash.

Financial Capacity

At the end of Q1 2016 the Company's working capital surplus was $6.5 million. The combination of this working capital surplus plus funds flow from operations for 2016 is expected to be sufficient to fund the Company's target capital program in 2016 in the range of $13.0 to $15.0 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 2016. The budgeted capital spending is split between the TBNG JV lands and the Banarli licences with approximately 80 percent dedicated to the Banarli licences. The limited drilling and workover capital spending on the TBNG JV lands is focused on mitigating but not fully offsetting natural production declines. The Banarli seismic acquisition phase was completed in June 2015 and the first two exploration wells, Bati Gurgen-1 and Yayli-1 were drilled in November and December of 2015, respectively. Early success with these two wells has given management encouragement to focus 2016 spending on additional conventional natural gas drilling at Banarli. Efforts will continue to secure a joint venture partner to further advance a higher risk and cost exploration drilling and fracing evaluation program in the deeper horizons at Banarli and certain TBNG JV lands to prove-up the potential of a basin-centered gas play. The Company will continue to utilize current working capital and funds flow from operations to advance the drilling program at Banarli.

There is no current expectation of utilizing either equity capital or debt capital to fund any increased 2016 budget in the event of further drilling success at Banarli. 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

	Three months ended			
	March 31, 2016	**December 31, 2015**	**September 30, 2015**	**June 30, 2015**
Total daily production (boe/d)	792	809	794	1,045
Average wellhead price ($/boe)	$ 60.09	$ 59.45	$ 58.98	$ 59.35
Petroleum and natural gas sales	4,328	4,425	4,309	5,642
Funds flow from operations	1,969	1,600	1,949	2,963
Per share, basic and diluted	0.03	0.03	0.03	0.05
Net income (loss)	(992)	287	(169)	(787)
Per share, basic and diluted	$ (0.02)	$ 0.01	$ -	$ (0.01)

	Three months ended			
	March 31, 2015	**December 31, 2014**	**September 30, 2014**	**June 30, 2014**
Total daily production (boe/d)	1,223	1,180	997	1,123
Average wellhead price ($/boe)	$ 65.14	$ 63.73	$ 58.11	$ 59.65
Petroleum and natural gas sales	7,167	6,921	5,330	6,097
Funds flow from operations	3,673	3,654	3,011	3,283
Per share, basic and diluted	0.06	0.06	0.05	0.06
Net income (loss)	107	697	(171)	288
Per share, basic and diluted	$ -	$ 0.01	$ -	$ 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 has benefited from high natural gas prices and netbacks in Turkey.
- With significant drilling and production operations in Turkey, the Company has had a high level of foreign exchange and currency translation exposure.

Commitments and Contractual Obligations

On June 15, 2015, Valeura entered into a new 39 month sublease agreement for its current office space in Calgary commencing on November 1, 2015 and ending on January 30, 2019. The Company has the option to terminate the sublease agreement after 18 months. The total amount committed under this sublease is approximately $1.4 million including an estimate for operating costs over the term of the sublease. At March 31, 2016 the remaining commitment of $1.2 million will be discharged in the following years: 2016 – $0.3 million, 2017 – $0.4 million, 2018 – $0.4 million, 2019 – $0.1 million.

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. The reader is referred to Valeura's December 31, 2015 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2016 and ending on March 31, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2016 other than those previously disclosed under commitments.

Financial Instruments

Financial instruments of the Company include cash, 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 a participant in the international oil and gas industry which are inherently risky.

Prices

The BOTAS price is a reference price fixed by the Turkish government. The natural gas reference price is correlated to contract prices for natural gas imports into Turkey. Any reduction to the price of imported gas would allow the Turkish government to reduce natural gas subsidies and pay down debt and may not result in a pass-through reduction in the reference price. Weakening of the Turkish Lira to the United States Dollar exchange rate has the potential to cause the government gas subsidy to increase. Considering the high natural gas prices in the surrounding region, and the devaluation of the Turkish Lira against the United States Dollar throughout 2015, the current level of natural gas pricing in Turkey for Q1 2016 was consistent with the prior year. As a result of natural gas infrastructure restrictions and the lack of gas-on-gas competition in Turkey, Valeura has not had the same susceptibility that other producers have had to fluctuations in global commodity prices, which have seen significant reductions throughout 2015. However, the natural gas contracts for imported gas have crude oil price sensitivities that would suggest there is potential for a reduction in the BOTAS reference price. The Company has no knowledge of a potential reduction but considers certain price risk to exist.

All other risk factors have not materially changed from December 31, 2015. The reader is referred to Valeura's December 31, 2015 audited consolidated financial statements, MD&A and 2015 AIF for a description of these risks.