valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 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 August 11, 2016 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and six month periods ended June 30, 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:

	Three months ended		**Six months ended**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Cash provided by operating activities	**$ 2,943**	$ 4,761	**$ 4,121**	$ 8,819
Decommissioning costs incurred	**-**	-	**-**	19
Change in non-cash working capital	**(845)**	(1,798)	**(54)**	(2,202)
Funds flow from operations	**$ 2,098**	$ 2,963	**$ 4,067**	$ 6,636

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 ability to satisfy the conditions for closing of the Statoil farm-out at Banarli pursuant to the Definitive Agreements, including securing GDPA approval for the transfer of the licence interests and the expected timing; the ultimate investment by Statoil under the Definitive Agreements and its ability to earn a 50% interest in the Banarli licences; the anticipated spud date of the Phase 1 well under the Statoil farm-out agreement; the expected US$6.0 million payment from Statoil at the closing of the Statoil farm-out; the Company's 2016 work program and budget, operational plans (drilling, completions and workovers), expected capital expenditures and target sales volumes; the results from the Yayli-1 and Bati Gurgen-2 completions in the Osmancik formation; the future completion of additional net pay in the Osmancik and Danismen formations in the Bati Gurgen-1 well and the timing thereof; the planned drilling program on the Banarli licences and the timing thereof; the potential for a basin-centered gas play on the Banarli licences and certain TBNG JV lands; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; the ability to grow sales volumes and tie-in new wells and get these on-stream; the timing, estimated costs and ability to fund each of the foregoing; the plans to attract a joint venture partner to explore the deep formations on certain TBNG JV lands; the plan to pursue strategic acquisition opportunities; and the ability to find a viable option to re-start the drilling and fracing program in the shallow formations on the TBNG JV lands.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: political stability of the areas in which the Company is operating and completing transactions, and in particular the aftermath of the recent failed coup attempt in Turkey; continued safety of operations and ability to proceed in a timely manner; the ability to reach Definitive Agreements with Statoil and the expected timing; the ability to complete the closing of the Statoil farm-out on the Banarli licences; continued operations of and approvals forthcoming from the GDPA in a manner consistent with past conduct; future seismic, drilling, fracing and re-completion activity on the expected timelines; the prospectivity of the Banarli licences; future production rates and sales volumes, capital efficiencies and associated cash flow; future capital and other expenditures (including the amount and nature thereof); the ability to meet drilling deadlines and other requirements under licences and leases; the ability to attract a partner for deep exploration on certain TBNG JV lands; the ability to successfully pursue strategic acquisition opportunities; the ability to find ways to re-start the drilling and fracing program on the TBNG JV lands; future sources of funding; future economic conditions; future currency and exchange rates; and, the Company's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. In addition, the Company's work programs and budgets are in part based upon expected agreement among joint venture partners and associated exploration, development and marketing plans and anticipated costs and sales prices, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of drilling, fracing and other specialized oilfield equipment and service providers, changes in the operator's or other partners' plans and unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect.

Forward-looking information involves significant known and unknown risks and uncertainties. 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: the risk of not reaching Definitive Agreements with Statoil; the risks of delay and ability to obtain GDPA approval for the Statoil farm-out on the Banarli licences in light of the recent failed coup attempt in Turkey and its aftermath; risks of achieving viable natural gas production rates from the

Yayli-1 and Bati Gurgen-2 wells; 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, and the ability to mitigate these declines; 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; uncertainty regarding the amount of operating cash flow and the ability to reduce costs and achieve capital efficiencies; 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; political stability in Turkey, including potential changes in political leaders or parties or a resurgence of a coup or other political turmoil; 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 fluctuations in commodity pricing and BOTAS reference prices (denominated in Turkish Lira ("TL")); the risk of fluctuations in foreign exchange rates, particularly the TL; 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 and service providers; the uncertainty regarding government and other approvals; potential changes in laws and regulations; risks associated with weather delays and natural disasters; the risk associated with international activity; and the uncertainty regarding the ability to secure a joint venture partner to pursue deep exploration on certain TBNG JV lands. 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		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Financial				
Petroleum and natural gas sales	**$ 4,809**	$ 5,642	**$ 9,137**	$ 12,809
Net loss	**(642)**	(787)	**(1,634)**	(680)
Per share, basic and diluted	**(0.01)**	(0.01)	**(0.03)**	(0.01)
Funds flow from operations[1]	**2,098**	2,963	**4,067**	6,636
Per share, basic and diluted	**$ 0.04**	$ 0.05	**$ 0.07**	$ 0.11
Production volumes				
Natural gas (Mcf/d)	**5,560**	6,219	**5,129**	6,743
Crude oil (bbl/d)	**7**	8	**8**	9
Total (boe/d)	**933**	1,045	**863**	1,133
Sales prices				
Natural gas (per Mcf)	**$ 9.44**	$ 9.89	**$ 9.72**	$ 10.42
Crude oil (per bbl)	**54.41**	57.84	**46.09**	53.56
Total (per boe)	**56.62**	59.35	**58.21**	62.45
Capital expenditures (net)	**$ 3,215**	$ 4,916	**$ 5,919**	$ 6,351
Working capital			**5,741**	10,007
Cash			**4,611**	7,750
Weighted average shares outstanding Basic and diluted (thousands)[2]	**58,077**	57,906	**57,991**	57,906

Outstanding Share Data

	June 30, 2016
Common shares	58,452,801
Stock options	4,914,500
Fully Diluted	63,367,301

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 August 11, 2016 is 63,367,301.

[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 June 30, 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 June 30, 2016 the GDPA had approved the conversion of all eligible exploration licences held by the Company and its joint venture partners.

Turkish Operations

On July 15, 2016, an attempted coup by elements of the Turkish military was put down by the government. This event and the aftermath have not directly affected the Company's ability to conduct drilling and production operations in the Thrace Basin and no delays or security issues have been experienced. The impact so far has been a further devaluation in the Turkish Lira, sovereign debt ratings downgrades and a three-month state of emergency declaration. The situation appears to have stabilized somewhat with currency exchange rates regaining some of the losses sustained in the immediate aftermath of the coup attempt. The Company will continue to monitor conditions, including the safety of personnel and operations, the security situation generally, impact on the Turkish Lira and banking facilities, the functioning of the GDPA, impact on our joint venture partners and any changes in offtakes by our natural gas customers.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The ability to make reliable estimates is further complicated when the political, economic and security situation is uncertain. Management has based its estimates with respect to the Company's operations in Turkey based on information available up to the date these condensed interim consolidated financial statements were approved by the Board of Directors. The situation in Turkey remains uncertain and significant changes could occur which could materially impact the assumptions and estimates made in these condensed interim consolidated financial statements. Changes in assumptions are recognized in the financial statements prospectively.

There can be no assurance that the Company will be able to maintain operations in a normal manner in the future.

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) Company ("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 land (117,468 net) as at June 30, 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 June 30, 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 from the TBNG JV lands in Q2 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. 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 June 30, 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 Q2 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. This 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 June 30, 2016, the Company had already completed the 3D seismic commitment and two of the three-well drilling commitments.

Following 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 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. A third exploration well was spudded in Q2 2016.

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 distributes 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 metres, 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. The Company subsequently plugged off the Teslimkoy and moved up-hole to complete and test 13 metres of indicated net pay in shallower conventional sands in the Osmancik formation at a depth of 1,800 metres. Five intervals in the Osmancik formation were perforated and simultaneously tested yielding initial short term production rates of more than 1.0 MMcf/d but with high associated water production. Production logging indicated that the water production appeared to be sourced primarily from one of the lower perforated intervals but attempts to isolate and plug-off water production and achieve a sustainable gas flow rate were not successful. The well is currently suspended pending an assessment of the option to drill out the bridge plugs and pump the well to handle water production.

On June 19, 2016 the third exploration well Bati Gurgen-2 was spudded and was drilled to a true vertical depth of 2,226 metres. The wellbore penetrated well developed sands in both the Danismen and Osmancik formations but these sands were 25 to 29 metres deeper than expected and appeared to be wet on logs. As a result, a sidetrack drilling operation was carried out targeting sands in the Osmancik formation in a higher structural position at a bottom-hole location approximately 360 metres west of the initial bottom-hole location. The sidetrack well was drilled and cased to a true vertical depth of 1,857 metres in the Osmancik formation. Preparations are underway to perforate and test the Osmancik.

On May 15, 2016 the Company entered a binding letter agreement (the "Letter Agreement") with Statoil Holding Netherlands B.V. ("Statoil"), a wholly-owned affiliate of Statoil ASA, for a farm-in agreement for the exploration of the deeper formations below approximately 2,500 metres on the Company's two 100 percent owned and operated Banarli exploration licences in the Thrace Basin of Turkey. The Letter Agreement is subject to satisfaction of certain conditions including the execution of definitive transaction agreements (the "Definitive

Agreements") and the approval of the GDPA for the associated licence interest transfers. Under the terms of the agreement Statoil will have the option to earn 50 percent in the deep formations on the Banarli Licences by investing in an exploration program that includes payments and carried costs of at least US$36 million. The actual amount invested by Statoil to earn its 50 percent interest may be higher based on the actual agreed costs of the three-phase work program, which includes two deep wells and new 3D seismic. Valeura will operate the deep exploration program during the earning phase under the Letter Agreement and retain a 100 percent interest in the shallow formations in the Banarli exploration licences. The Company continues to work towards completion of the Definitive Agreements by the end of August 2016.

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 is targeting to complete the Definitive Agreements for the Statoil farm-in transaction on the Banarli licences by the end of August 2016, and to subsequently obtain Turkish government approval for the licence interest transfer applications and satisfy certain other conditions precedent as soon as possible. In parallel, Valeura and Statoil are advancing the necessary preparatory work to facilitate spudding the first deep well at Banarli under the farm-in by year-end 2016 targeting a potential basin-centered gas play.

Concurrently, the Company expects to continue its strategy to shift emphasis from its non-operated 40% working interest in the TBNG JV to exploration and development drilling in the shallow formations on the Banarli licences in which Valeura retains a 100% interest.

The Company currently expects to complete a capital expenditure program in the range of $13 to 15 million (net) in 2016 focused on natural gas development from the shallow formations on the Banarli licences funded from cash on hand and cash flow. The expected payment of US$6.0 million from Statoil at closing of the Banarli farm-in transaction, as a contribution to back costs incurred on the Banarli licences, will provide an important boost to working capital. The work program and budget aims to achieve the following key objectives in 2016:

- Close the Statoil farm-in on the Banarli licences and spud the Phase 1 deep well (4,000 metres+) by year-end 2016;
- Seek a joint venture partner to explore the deep formations below approximately 2,500 metres on certain TBNG JV lands, which also have potential for a basin-centered gas play;
- Pursue other strategic acquisition opportunities;
- Grow volumes from the shallow formations (less than 2,500 metres depth) on the Banarli licences by drilling up to two additional conventional gas wells in Q4 2016, following the anticipated closing of the Statoil farm-in agreement, targeting the Osmancik and Danismen formations;
- Achieve revised corporate average sales volumes in the range of 800 to 900 boe/d (net); and
- Explore various options to re-start an exploration and development drilling and fracing program on the TBNG JV lands given both conventional natural gas and tight gas potential in formations shallower than 2,500 metres.

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

Results of Operations

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Petroleum and natural gas sales	**$ 4,809**	$ 5,642	**$ 9,137**	$ 12,809
Royalties	**(626)**	(763)	**(1,205)**	(1,732)
Production costs	**(529)**	(516)	**(976)**	(1,258)
Operating netback[3]	**3,654**	4,363	**6,956**	9,819
Other income	**223**	211	**456**	333
General and administrative expenses	**(1,726)**	(1,510)	**(3,099)**	(3,157)
Interest expense	**-**	(2)	**-**	(21)
Realized foreign exchange loss	**(53)**	(99)	**(246)**	(338)
Funds flow from operations[3]	**2,098**	2,963	**4,067**	6,636
Non-cash expenses				
Share-based compensation	**(16)**	(156)	**(169)**	(326)
Accretion on decommissioning liabilities	**(222)**	(199)	**(449)**	(401)
Unrealized foreign exchange gain loss	**(201)**	(828)	**(682)**	(1,086)
Depletion and depreciation	**(2,112)**	(2,340)	**(3,944)**	(5,147)
Deferred tax expense	**(189)**	(227)	**(457)**	(356)
Net loss	**$ (642)**	$ (787)	**$ (1,634)**	$ (680)

Sales Volumes

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Natural gas (Mcf/d)	**5,560**	6,219	**5,129**	6,743
Crude oil (bbl/d)	**7**	8	**8**	9
Total (boe/d)	**933**	1,045	**862**	1,133

Sales volumes for the three and six months ended June 30, 2016 decreased to 933 boe/d and 862 boe/d, respectively, compared to 1,045 boe/d and 1,133 boe/day for the same periods 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. Banarli sales volumes in Q2 2016 averaged 398 boe/d or 43% of total sales.

Operating Netbacks (per boe)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Petroleum and natural gas sales	**$ 56.62**	$ 59.35	**$ 58.21**	$ 62.45
Royalties	**(7.37)**	(8.03)	**(7.68)**	(8.45)
Production costs	**(6.23)**	(5.42)	**(6.22)**	(6.13)
Operating netback	**$ 43.02**	$ 45.90	**$ 44.31**	$ 47.87

[3] 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		Six months ended	
Average reference prices	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Natural gas – BOTAS (per Mcf)[4]	**TL 21.93**	TL 21.93	**TL 21.93**	TL 21.93
Natural gas – BOTAS (per Mcf)	**$ 9.78**	$ 10.14	**$ 10.01**	$ 10.57
Average exchange rate (TL/CAD)	**2.243**	2.163	**2.190**	2.074

	Three months ended		Six months ended	
Average realized prices	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Natural gas (per Mcf)	**$ 9.44**	$ 9.89	**$ 9.72**	$ 10.42
Crude oil (per bbl)	**$ 54.41**	$ 57.84	**$ 46.09**	$ 53.56

The following table shows the percentage change in Valeura's realized prices for Q2 2016 and YTD 2016 compared to the same periods in 2015:

	Q2 2016	YTD 2016
Natural gas	(5%)	(7%)
Crude oil	(6%)	(14%)

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 $9.78 per thousand cubic feet ("Mcf") for Q2 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.

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 Q2 2016 was $9.31/Mcf, which compares to TBNG JV natural gas price realizations of $9.55/Mcf in the same period.

The Company's Q2 2016 average realized natural gas price in Turkey decreased by five percent to $9.44 per Mcf from $9.89 per Mcf in Q2 2015 due primarily to the devaluation of the Turkish Lira against the Canadian Dollar and the increased proportion of sales from Banarli. The average realized natural gas price in Turkey for Q2 2016 of $9.44 per Mcf represents a three percent discount to the BOTAS benchmark price.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Natural gas	**$ 4,776**	$ 5,599	**$ 9,072**	$ 12,719
Crude oil	**33**	43	**65**	90
Total revenues	**$ 4,809**	$ 5,642	**$ 9,137**	$ 12,809

[4] 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)

The composition of petroleum and natural gas sales revenues for the three and six months ended June 30, 2016 was approximately 99 percent natural gas and one percent crude oil. Revenues for the three and six months ended June 30, 2016 decreased in comparison to the same periods in 2015 due primarily to lower volumes from the TBNG JV lands, partially offset by sales from Banarli, and lower realized natural gas prices in Turkey as a result of the devaluation of the Turkish Lira against the Canadian Dollar and increased proportion of Banarli sales.

Royalties

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Royalties	**$ 626**	$ 763	**$ 1,205**	$ 1,732
Percentage of revenue	**13.0%**	13.5%	**13.2%**	13.5%

Royalties for the three and six months ended June 30, 2016 decreased in comparison to the same periods in 2015 as a result of lower petroleum and natural gas sales revenues. Revenues are subject to a 12.5 percent government royalty and an overriding royalty on the TBNG JV Lands, only, of one percent.

Production Costs

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Production costs	**$ 529**	$ 516	**$ 976**	$ 1,258
$ per boe	**6.23**	5.42	**6.22**	6.13

Production costs for the six months ended June 30, 2016 decreased in comparison to the same periods 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		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
General and administrative expenses	**$ 1,498**	$ 1,511	**$ 3,260**	$ 3,437
Business development	**313**	177	**313**	192
Total	**1,811**	1,688	**3,573**	3,629
Recoveries	**(85)**	(178)	**(474)**	(472)
Total general and administrative expenses	**$ 1,726**	$ 1,510	**$ 3,099**	$ 3,157

Total general and administrative expenses for Q2 2016 increased when compared the same period in 2015 due primarily to higher business development costs associated with the Statoil farm-in agreement and other business development projects and recognition of the 2016 conditional employee bonuses which were earned on signing of the binding farm-in letter of intent with Statoil, partially offset by lower salary costs associated with a reduced full-time staff in Calgary effective March 31, 2016. The decrease in the six months ended June 30, 2016, when compared to the same period in 2015, is due primarily to lower employee bonuses and decreased salary costs, partially offset by higher business developments costs associated with the Statoil farm-in agreement and employee severance expenses.

Foreign Exchange

During the three and six months ended June 30, 2016, the Company recorded a foreign exchange loss of $0.3 million and $0.9 million, respectively, compared to a foreign exchange loss of $0.9 million and $1.4 million for the same periods in 2015. The foreign exchange losses in 2016 are 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 effectively 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.

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 cost effective ways to mitigate such exposure.

Other Income

During the three and six months ended June 30, 2016, the Company recorded other income of $0.2 million and $0.5 million, respectively, compared to $0.2 million and $0.3 million for the same periods in 2015. Other income is comprised of third party processing and marketing income and interest income related to cash on hand. The increase during the three and six months ended June 30, 2016 is attributed to higher third party volumes processed

Funds Flow from Operations[5]

Funds flow from operations for three and six months ended June 30, 2016 was $2.1 million and $4.1 million, respectively, compared to $3.0 million and $6.6 million for the same periods in 2015. The decrease in funds flow from operations for Q2 2016 was due to lower sales revenue and increased general and administrative expenses. The decrease in funds flow from operations for the six months ended June 30, 2016, was due to lower sales revenue partially offset by lower production costs.

Non-cash Expenses:

Share-based Compensation

Share-based compensation is a non-cash expense associated with the stock options issued to directors, officers, employees and certain other service providers of the Company.

Share-based compensation expense for the three and six months ended June 30, 2016 was $0.1 million and $0.2 million, respectively, compared to $0.2 million and $0.3 million for the same periods in 2015. During Q2 2016, 546,666 options were exercised at a weighted average exercise price of $0.80 per option and 328,834 options were forfeited at a weighted average exercise price of $0.60 per option, all related to departed employees and one director who did not stand for election at the Company's annual meeting of shareholders in May 2016.

Accretion on Decommissioning Liabilities

Accretion on decommissioning obligations for the three and six months ended June 30, 2016 was $0.2 million and $0.4 million, respectively, compared to $0.2 million and $0.7 million for the same periods in 2015. The increase is primarily due to an increase in well locations and the associated impact on decommissioning liabilities.

[5] 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)

Depletion and Depreciation

Depletion and depreciation for the three and six months ended June 30, 2016 was $2.1 million and $3.9 million, respectively, compared to $2.3 million and $5.1 million for the same periods in 2015. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for the three and six months ended June 30, 2016 was $24.88/boe and $25.14/boe, respectively, compared to $24.61/boe and $25.10/boe for the same periods in 2015.

Deferred Tax

Deferred tax for the three and six months ended June 30, 2016 was an expense $0.2 million and $0.5 million, respectively, compared to an expense of $0.2 million and $0.4 million for the same periods 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.

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 occurs. 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 the three and six months ended June 30, 2016 was a loss of $1.4 million and $3.4 million, respectively, compared to a loss of $2.8 million and $4.9 million for the same periods in 2015 reflecting the fluctuation in the value of the Turkish Lira compared to the Canadian dollar in the respective periods. In 2016, the currency translation adjustment losses were 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		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Geological and geophysical	**$ 252**	$ 4,802	**$ 809**	$ 5,278
Drilling & completions	**2,866**	45	**4,175**	701
Equipping & facilities	**97**	19	**868**	122
Workovers & recompletions	**-**	36	**66**	235
Other	**-**	14	**1**	15
Total	**$ 3,215**	$ 4,916	**$ 5,919**	$ 6,351

Capital spending for Q2 2016 was $3.2 million, including $0.3 million for geological and geophysical operations, $2.9 million for drilling and completions and $0.1 million for equipping and facilities.

During Q2 2016, the Company continued to focus on its 100 percent owned and operated Banarli licences in the Thrace Basin, including completion operations on the Yayli-1 well and drilling of the Bati Gurgen-2 well.

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

Liquidity, Financing and Capital Resources

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Opening cash position	**$ 3,726**	$ 8,082	**$ 6,973**	$ 5,928
Inflow of funds				
Funds from operations	**2,098**	2,963	**4,067**	6,636
Proceeds from stock option exercises	**437**	-	**437**	-
Changes in working capital and foreign exchange on cash	**1,565**	1,621	**-**	1,556
	4,100	4,584	**4,504**	8,192
Outflow of funds				
Capital expenditures	**(3,215)**	(4,916)	**(5,919)**	(6,351)
Decommissioning costs incurred	**-**	-	**-**	(19)
Changes in working capital and foreign exchange on cash	**-**	-	**(947)**	-
	(3,215)	(4,916)	**(6,866)**	(6,370)
Closing cash position	**$ 4,611**	$ 7,750	**$ 4,611**	$ 7,750

Capital Funding and Resources

As at June 30, 2016, Valeura's working capital balance was $5.7 million including cash of $4.6 million. Valeura's 2016 opening cash position was $7.0 million. In Q2 2016, the Company utilized this opening cash balance plus funds flow from operations of $2.1 million to fund an exploration and development capital program of $3.2 million. The resultant cash balance at June 30, 2016 was $4.6 million after reflecting $0.4 million of proceeds from stock options exercised and a $1.6 million inflow of funds attributed to changes in working capital and foreign exchange on cash.

Financial Capacity

At the end of Q2 2016 the Company's working capital surplus was $5.7 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 of up to $15.0 to $16 million including up to $9.0 to $10 million in the second half of 2016. 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 90 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. Early success on the Banarli licences has given management encouragement to focus 2016 spending on additional conventional natural gas drilling at Banarli, with up to two additional wells planned in Q4 2016. The Company will continue to utilize current working capital and funds flow from operations to advance the drilling program at Banarli in the shallow formations. Under terms of the Binding Letter Agreement for the Statoil farm-in on the Banarli licences, the Company expects to receive US$6.0 million at closing of the transaction as a contribution to back costs incurred on the Banarli licences, which will boost working capital.

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

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.

Capital Management (see Turkey Operational Update, page 5)

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
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Total daily production (boe/d)	933	792	809	794
Average wellhead price ($/boe)	$ 56.62	$ 60.09	$ 59.45	$ 58.98
Petroleum and natural gas sales	4,809	4,328	4,425	4,309
Funds flow from operations	2,098	1,969	1,600	1,949
Per share, basic and diluted	0.04	0.03	0.03	0.03
Net income (loss)	(642)	(992)	287	(169)
Per share, basic and diluted	$ (0.01)	$ (0.02)	$ 0.01	$ -

				Three months ended
	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Total daily production (boe/d)	1,045	1,223	1,180	997
Average wellhead price ($/boe)	$ 59.35	$ 65.14	$ 63.73	$ 58.11
Petroleum and natural gas sales	5,642	7,167	6,921	5,330
Funds flow from operations	2,963	3,673	3,654	3,011
Per share, basic and diluted	0.05	0.06	0.06	0.05
Net income (loss)	(787)	107	697	(171)
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 June 30, 2016 the remaining commitment of $1.1 million will be discharged in the following years: 2016 – $0.2 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 June 30, 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 June 30, 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.

Political Risk

As discussed previously, the political environment in Turkey has been impacted by recent events. The Company will continue to monitor conditions including the safety of personnel and operations, the security situation generally, impact on the Turkish Lira and banking facilities, the functioning of the GDPA, impact on our joint venture partners and any changes in offtakes by our natural gas customers.

Prices

The BOTAS price is a reference price for domestic sales of natural gas, which is fixed by the Turkish government and is denominated in Turkish Lira. The natural gas reference price is correlated to contract prices for natural gas imports into Turkey, typically priced in United States dollars. 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 if there were no increase to the reference price. The last change made to the reference price was a nine percent increase in October 2014, in part to offset the weakening of the Turkish Lira in 2014. The Turkish Lira has continued to weaken since that time. In Q2 2016, the lower natural gas price realizations in Canadian dollars compared to Q1 2016 and Q2 2015 were due to currency fluctuations only.

As a result of natural gas infrastructure restrictions and the lack of gas-on-gas competition in the natural gas market in Turkey, Valeura has benefited from less susceptibility to recent significant reductions in global commodity prices. However, the natural gas contracts for imported gas are reported to have crude oil price sensitivities that would suggest there is potential for a reduction in the BOTAS reference price in the future depending on government policies. 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.