valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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 November 10, 2016 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended September 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.

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		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Cash provided by operating activities	**$ 1,516**	$ 919	**$ 5,637**	$ 9,738
Decommissioning costs incurred	**-**	-	**-**	19
Change in non-cash working capital	**(450)**	1,030	**(504)**	(1,172)
Funds flow from operations	**$ 1,066**	$ 1,949	**$ 5,133**	$ 8,585

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 current outlook for capital expenditures and net sales in 2016 and 2017; operational activities and drilling plans on the Banarli licences and TBNG JV lands; the ability to satisfy the conditions for closing the Banarli Farm-in, the TBNG Acquisition and the West Thrace Deep Rights Sale and the Subsequent West Thrace Deep Rights Sale, including securing Turkish government approvals for the TBNG Acquisition and the transfer of various licence interests; the ability to close the TBNG Acquisition and the West Thrace Deep Rights Sale and the expected timing; the ability to close the Subsequent West Thrace Deep Rights Sale and the expected timing; the cash consideration for the TBNG Acquisition after final closing adjustments; the ability to fund the TBNG Acquisition with the proceeds from Statoil under the West Thrace Deep Rights Sale and the Offering; the expected US$6 million payment on the closing of the Banarli Farm-in, the expected payment of US$12 million on the closing of the West Thrace Deep Rights Sale and the expected payment of US$3 million on the closing of the Subsequent West Thrace Deep Rights Sale; the key benefits of the TBNG Acquisition, the West Thrace Deep Rights Sale and the Subsequent West Thrace Deep Rights Sale; the ability to satisfy the conditions for completion of the Offering and the expected timing; the ability to ramp-up the drilling program in the shallow formations on the TBNG JV lands and Banarli licences; the prospectivity of the shallow formations on the TBNG JV lands and Banarli licences; the Company's 2017 work program, operational plans (drilling), expected capital expenditures, target production volumes, expected price realizations and expected operating netbacks; the ability to fulfill the commitment program of spudding four shallow wells on the West Thrace lands by late June 2017; the planned drilling and seismic program in 2017 for the Banarli Farm-in and the work program for the shallow gas business, and the timing thereof; and the potential for a BCGA play in the deep formations on the Banarli licences and West Thrace 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 July 2016 failed coup attempt in Turkey; continued safety of operations and ability to proceed in a timely manner; the ability to close the Banarli Farm-in, the TBNG Acquisition, the West Thrace Deep Rights Sale and the Subsequent West Thrace Deep Rights Sale and to complete the Offering; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future seismic and drilling activity on the expected timelines; the prospectivity of the TBNG JV lands and Banarli licences, including the deep potential; the continued favourable pricing and operating netbacks in Turkey; future production rates and associated operating netbacks and cash flow; future economic conditions; future currency exchange rates; the ability to meet drilling deadlines and other requirements under licences and leases; and the Company's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. 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 risks of delay or not obtaining Turkish government approvals in a timely manner for the transfer of licence interests and the TBNG Acquisition in light of the July 2016 failed coup attempt in Turkey and its aftermath, or satisfying other conditions for closing the Banarli Farm-in, the TBNG Acquisition, the West Thrace Deep Rights Sale or the Subsequent West Thrace Deep Rights Sale; failure to complete the Offering; failure to realize the key benefits of the TBNG Acquisition, the West Thrace Deep Rights Sale and the Subsequent West Thrace Deep Rights Sale; the risks of currency fluctuations; changes in gas prices and netbacks in Turkey;

uncertainty regarding the availability of drilling rigs and associated equipment on the contemplated timelines for shallow drilling and deep drilling; 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 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 fulfill the drilling commitments on the West Thrace 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		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Financial				
Petroleum and natural gas sales	**$ 3,510**	$ 4,309	**$ 12,647**	$ 17,118
Net loss	**(1,263)**	(169)	**(2,897)**	(849)
Per share, basic and diluted	**(0.02)**	-	**(0.05)**	(0.01)
Funds flow from operations[1]	**1,066**	1,949	**5,133**	8,585
Per share, basic and diluted	**$ 0.02**	$ 0.03	**$ 0.09**	$ 0.15
Production volumes				
Natural gas (Mcf/d)	**4,020**	4,723	**4,756**	6,062
Crude oil (bbl/d)	**10**	7	**8**	8
Total (boe/d)	**680**	794	**801**	1,019
Sales prices				
Natural gas (per Mcf)	**$ 9.35**	$ 9.85	**$ 9.61**	$ 10.27
Crude oil (per bbl)	**56.24**	48.79	**52.15**	52.25
Total (per boe)	**56.10**	58.98	**57.63**	61.54
Capital expenditures (net)	**$ 3,080**	$ 741	**$ 8,999**	$ 7,092
Working capital			**3,697**	11,335
Cash			**2,336**	7,972
Weighted average shares outstanding				
Basic and diluted (thousands)[2]	**58,506**	57,906	**58,164**	57,906

Outstanding Share Data

	September 30, 2016
Common shares	58,519,321
Stock options	4,914,500
Fully Diluted	63,433,821

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 November 10, 2016 is 63,433,821.

[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 September 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 General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") to convert a number of existing exploration licences to new exploration licences or production leases. As at September 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 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 state of emergency declaration which has been extended to January 19, 2017. 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 September 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 September 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 Q3 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 September 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 Q3 2016.

TBNG Acquisition

On October 13, 2016, the Company's wholly-owned affiliate, Valeura Energy (Netherlands) B.V entered into a share purchase agreement (the "Acquisition Agreement") with TransAtlantic Worldwide, Ltd to acquire 100 percent of the shares of its wholly-owned affiliate, TBNG, for cash consideration at closing of approximately US$18.5 million (estimate after closing adjustments) (the "TBNG Acquisition"). TBNG currently holds 41.5 percent participating interest in the joint venture lands acquired from TBNG and PTI in 2011. Upon the closing of the TBNG Acquisition, Valeura's participating interest in the shallow rights on the TBNG JV will increase to 81.5 percent and Valeura will become the operator. Acquiring operatorship allows Valeura to accelerate the early ramp-up of exploration and development activities on the TBNG JV lands, with the initial priority on spudding four shallow commitment wells on the West Thrace lands by late June 2017. Approval for the change in control of

TBNG requires Turkish government approval. Applications were submitted to the various government agencies in October 2016.

West Thrace Deep Rights Sale

On October 13, 2016 the Company's wholly-owned affiliate, Corporate Resources B.V ("CRBV") entered into a sale and purchase agreement (the "Deep Rights Sale Agreement") with Statoil, a wholly-owned affiliate of Statoil ASA, to sell Valeura's 40 percent participating interest in the deep formations below approximately 2,500 metres depth on certain TBNG JV lands, including two exploration licenses and the three production leases (the "West Thrace lands"), for cash consideration of US$12 million (the "West Thrace Deep Rights Sale"). The Deep Rights Sale Agreement also provides that upon the closing of the West Thrace Deep Rights Sale and the TBNG Acquisition, CRBV will cause TBNG to enter into a sale and purchase agreement with Statoil to sell an additional 10 percent participating interest in the deep formations below approximately 2,500 metres depth on the West Thrace lands, for cash consideration of US$3 million (the "Subsequent West Thrace Deep Rights Sale"). Upon the closing of the West Thrace Deep Rights Sale and the Subsequent West Thrace Deep Rights Sale, Valeura retains a 31.5 percent participating interest and Statoil acquires a 50 percent participating interest in the deep formations on the West Thrace lands. Valeura will retain an 81.5 percent participating interest in the shallow formations on the West Thrace lands and an 81.5 percent participating interest in all formations on the other TBNG JV Lands. Closing of the West Thrace Deep Rights Sale is subject to the Turkish government approvals for the associated transfer of the licence interests and is expected before year-end 2016. Furthermore, closing of the TBNG Acquisition is conditional on the closing of the West Thrace Deep Rights Sale. Applications for the licence interest transfers were submitted to the GDPA on October 26, 2016.

Banarli Exploration Licences Award

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 September 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. A recompletion program to perforate additional pay in the shallower Danismen formation is under review for possible implementation by year-end 2016.

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. As at the date of this MD&A, the well remains shut-in due to high water production. It is currently planned to swab the well for an extended period to unload water from the wellbore and determine whether stabilized gas flows can be achieved prior to any decision to equip the well with a pump.

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. The well was placed on-stream on September 26, 2016 as a producer from approximately 8.0 metres of conventional stacked sands in the Osmancik formation at a depth of 1,640 metres. Over the initial 30 days of on-stream operations, the well was produced at an average restricted rate of 1.1 MMcf/d ("IP30"). The well is currently producing at a restricted rate of approximately 1.1 MMcf/d.

Banarli Farm-in

On August 19, 2016 the Company executed the definitive transaction documents (the "Definitive Agreements") 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. 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 Definitive Agreement and retain a 100 percent interest in the shallow formations in the Banarli exploration licences. Closing of the Banarli Farm-in is subject to the Turkish government approvals for the associated transfer of the licence interests. At closing, which is expected by year-end 2016, Statoil will pay Valeura US$6.0 million as a contribution to back costs incurred on the Banarli licences. Applications for the licence interest transfers were submitted to the GDPA for their review on September 8, 2016 and were subsequently presented to the Ministry of Energy of Natural Resources on November 1, 2016 for approval.

Outlook

The Company currently expects to complete a capital expenditure program of approximately $10 million in 2016 focussed primarily on the Banarli licences. Capital expenditures in Q4 2016 are expected to include several recompletions on the TBNG JV lands. The current outlook for annual average net sales in 2016 is approximately 800 boe/d, which is at the low end of the most recent guidance range of 800 to 900 boe/d provided on August 11, 2016. The current net sales outlook for 2016 reflects delays in achieving first gas from the Bati Gurgen-2 well and deferral of new drilling pending the closing of the Banarli Farm-in, TBNG Acquisition, West Thrace Deep Rights Sale and an underwritten private placement offering of subscription receipts for gross proceeds of approximately $11 million (as described below, the "Offering") (the "Transactions").

The Company is targeting to close the Banarli Farm-in, the TBNG Acquisition and the West Thrace Deep Rights Sale and to complete the private placement financing, by year-end 2016. Applications have been submitted to the Turkish government for the various approvals required to close the Banarli Farm-in, TBNG Acquisition and the West Thrace Deep Rights Sale. Closing of the Subsequent West Thrace Deep Rights Sale is expected in early 2017, which first requires Turkish government approval of the TBNG Acquisition and the subsequent licence interest transfer.

Based on completing the Transactions by year-end 2016, the Company is planning a capital expenditure program of up to $30 to 33 million (net) in 2017 focussed entirely on the shallow gas business. This program is expected to include a significant ramp-up in drilling in the shallow formations (less than 2,500 metres) on the TBNG JV lands and Banarli licences targeting corporate average sales volumes in the range of 2,000 to 2,200 boe/d. The 2017 work program and expenditures, and the timing thereof, are dependent on closing of the Transactions and receipt of the funds flow therefrom.

The Company also expects that the Banarli Farm-in program, fully funded by Statoil and operated by Valeura, will commence by early 2017 with the spudding of a deep exploration well.

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

Results of Operations

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Petroleum and natural gas sales	**$ 3,510**	$ 4,309	**$ 12,647**	$ 17,118
Royalties	**(453)**	(583)	**(1,658)**	(2,315)
Production costs	**(636)**	(475)	**(1,612)**	(1,733)
Operating netback[3]	**2,421**	3,251	**9,377**	13,070
Other income	**206**	245	**662**	578
General and administrative expenses	**(969)**	(1,357)	**(4,068)**	(4,514)
Transactions costs	**(438)**	-	**(438)**	-
Interest expense	**-**	-	**-**	(21)
Realized foreign exchange loss	**(154)**	(190)	**(400)**	(528)
Funds flow from operations[3]	**1,066**	1,949	**5,133**	8,585
Non-cash expenses				
Share-based compensation	**(110)**	(149)	**(279)**	(475)
Accretion on decommissioning liabilities	**(231)**	(196)	**(680)**	(597)
Transactions costs	**(65)**	-	**(65)**	-
Unrealized foreign exchange gain (loss)	**(315)**	28	**(997)**	(1,058)
Depletion and depreciation	**(1,632)**	(1,889)	**(5,576)**	(7,036)
Deferred tax expense (recovery)	**24**	88	**(433)**	(268)
Net loss	**$ (1,263)**	$ (169)	**$ (2,897)**	$ (849)

Sales Volumes

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Natural gas (Mcf/d)	**4,020**	4,723	**4,756**	6,062
Crude oil (bbl/d)	**10**	7	**8**	8
Total (boe/d)	**680**	794	**801**	1,019

Sales volumes for the three and nine months ended September 30, 2016 decreased to 680 boe/d and 801 boe/d, respectively, compared to 794 boe/d and 1,019 boe/d 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 and Bati Gurgen-2 wells at Banarli commenced, respectively, on March 12, 2016 and September 26, 2016. Banarli sales volumes in Q3 2016 averaged 284 boe/d or 42 percent of total sales.

The TBNG Acquisition and Statoil West Thrace Deep Rights Sale will provide funding and operatorship of the TBNG JV to enable resumption of an active drilling and workover program in 2017 in the shallow formations on the TBNG JV lands and Banarli licences to arrest production declines and create production growth.

[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)

Operating Netbacks (per boe)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Petroleum and natural gas sales	**$ 56.10**	$ 58.98	**$ 57.63**	$ 61.54
Royalties	**(7.24)**	(7.97)	**(7.56)**	(8.32)
Production costs	**(10.17)**	(6.51)	**(7.35)**	(6.23)
Operating netback	**$ 38.69**	$ 44.50	**$ 42.72**	$ 46.99

Pricing Information

	Three months ended		Nine months ended	
Average reference prices	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 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)	**$ 9.67**	$ 10.07	**$ 9.90**	$ 10.40
Average exchange rate (TL/CAD)	**2.267**	2.177	**2.216**	2.108

	Three months ended		Nine months ended	
Average realized prices	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Natural gas (per Mcf)	**$ 9.35**	$ 9.85	**$ 9.61**	$ 10.27
Crude oil (per bbl)	**$ 56.24**	$ 48.79	**$ 52.15**	$ 52.25

The following table shows the percentage change in Valeura's realized prices for Q3 2016 and YTD 2016 compared to the same periods in 2015:

	Q3 2016	**YTD 2016**
Natural gas	(5%)	(6%)
Crude oil	15%	-

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"). Between October 1, 2014 and September 30, 2016 the benchmark price remained unchanged. Effective October 1, 2016 the price has been reduced by 10 percent. The effective Canadian Dollar converted benchmark price was $9.67 per thousand cubic feet ("Mcf") for Q3 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 Banarli 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 Q3 2016 was $9.15 per Mcf, which compares to TBNG JV natural gas price realizations of $9.49 per Mcf in the same period.

[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 Company's Q3 2016 average realized natural gas price in Turkey decreased by five percent to $9.35 per Mcf from $9.85 per Mcf in Q3 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 Q3 2016 of $9.35 per Mcf represents a three percent discount to the BOTAS benchmark price.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Natural gas	**$ 3,459**	$ 4,278	**$ 12,531**	$ 16,997
Crude oil	**51**	31	**116**	121
Total revenues	**$ 3,510**	$ 4,309	**$ 12,647**	$ 17,118

The composition of petroleum and natural gas sales revenues for the three and nine months ended September 30, 2016 was approximately 99 percent natural gas and one percent crude oil. Revenues for the three and nine months ended September 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.

Royalties

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Royalties	**$ 453**	$ 583	**$ 1,658**	$ 2,315
Percentage of revenue	**12.9%**	13.5%	**13.1%**	13.5%

Royalties for the three and nine months ended September 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		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Production costs	**$ 636**	$ 475	**$ 1,612**	$ 1,733
$ per boe	**10.17**	6.51	**7.35**	6.23

Production costs for the nine months ended September 30, 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. Production costs for Q3 2016 increased in comparison to the same period in 2015 due to employee terminations costs in the TBNG JV partially offset by the weakening of the Turkish Lira against the Canadian Dollar. The higher unit operating costs for 2016 in comparison to 2015 are reflective of the level of fixed costs and the drop in production.

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

General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
General and administrative expenses	**$ 1,293**	$ 1,533	**$ 4,553**	$ 4,970
Business development	**(192)**	-	**121**	192
Total	**1,101**	1,533	**4,674**	5,162
Recoveries	**(132)**	(176)	**(606)**	(648)
Total general and administrative expenses	**$ 969**	$ 1,357	**$ 4,068**	$ 4,514

Total general and administrative expenses for the three and nine months ended September 30, 2016 decreased when compared to the same periods in 2015 due primarily to lower salary costs associated with a reduced full-time staff in Calgary effective March 31, 2016. In addition, certain business development costs related to the TBNG Acquisition and Statoil Banarli farm-in have been re-classified to transaction costs.

Transaction Costs

During the three and nine months ended September 30, 2016, the Company recorded transactions costs of $0.5 million and $0.5 million, respectively, compared to no transaction costs in 2015. Transactions costs in Q3 2016 related to expenses associated with the Statoil Banarli Farm-in and TBNG Acquisition. Transaction costs include primarily legal fees, advisory fees and other costs related to due diligence reviews.

Foreign Exchange

During the three and nine months ended September 30, 2016, the Company recorded a foreign exchange loss of $0.5 million and $1.4 million, respectively, compared to a foreign exchange loss of $0.2 million and $1.6 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 nine months ended September 30, 2016, the Company recorded other income of $0.2 million and $0.7 million, respectively, compared to $0.2 million and $0.6 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.

Funds Flow from Operations[5]

Funds flow from operations for three and nine months ended September 30, 2016 was $1.1 million and $5.1 million, respectively, compared to $1.9 million and $8.6 million for the same periods in 2015. The decrease in funds flow from operations for Q3 2016 was due to lower sales revenue, increased production costs and transactions costs incurred in the quarter. This was partially offset by lower general and administrative expenses and lower realized foreign exchange losses. The decrease in funds flow from operations for the nine months ended September 30, 2016, was due to lower sales revenue and increased transactions costs partially offset by lower production costs, lower general and administrative expenses and slightly lower realized foreign exchange losses.

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 nine months ended September 30, 2016 was $0.1 million and $0.3 million, respectively, compared to $0.1 million and $0.5 million for the same periods in 2015. The decrease for the nine months ended September 30, 2016 can be attributed to a lower number of stock options outstanding in 2016 compared to 2015. During the nine months ended September 30, 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 nine months ended September 30, 2016 was $0.2 million and $0.7 million, respectively, compared to $0.2 million and $0.6 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.

Depletion and Depreciation

Depletion and depreciation for the three and nine months ended September 30, 2016 was $1.6 million and $5.6 million, respectively, compared to $1.9 million and $7.0 million for the same periods in 2015. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves. The decrease in depletion and depreciation for the three and nine month periods in 2016 from prior year is due to reduced production volumes.

On a per unit basis, depletion and depreciation for the three and nine months ended September 30, 2016 was $26.13 per boe and $25.41 per boe, respectively, compared to $25.86 per boe and $25.29 per boe for the same periods in 2015.

Deferred Tax

Deferred tax for the three and nine months ended September 30, 2016 was a recovery of $0.02 million and an expense $0.5 million, respectively, compared to an expense of $0.1 million and of $0.3 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.

[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)

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 nine months ended September 30, 2016 was a loss of $1.5 million and $4.9 million, respectively, compared to a loss of $2.2 million and $7.1 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		Nine months ended	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Geological and geophysical	**$ 151**	$ 565	**$ 960**	$ 5,843
Drilling & completions	**2,571**	86	**6,746**	787
Equipping & facilities	**332**	-	**1,200**	122
Workovers & recompletions	**6**	86	**72**	321
Other	**20**	4	**21**	19
Total	**$ 3,080**	$ 741	**$ 8,999**	$ 7,092

Capital spending for Q3 2016 was $3.1 million, including $0.2 million for geological and geophysical operations, $2.6 million for drilling and completions and $0.3 million for equipping and facilities.

During Q3 2016, the Company continued to focus on its 100 percent owned and operated Banarli licences in the Thrace Basin. The drilling and completion expenditures of $2.6 million was almost entirely spent on the Bati Gurgen-2 well which was placed on-stream September 26, 2016.

The Bati Gurgen-2 well was a follow up well to the Bati Gurgen-1 well focusing on the medium-depth conventional stacked sands in the Osmancik formation. The drilling and completion cost of the Bati Gurgen-2 well exceeded the budgeted cost of $1.7 million due to a sidetrack drilling operation required to penetrate a higher structural position in the Osmancik formation. The well was successful and is currently producing at a restricted rate of 1.2 MMcf/d.

On October 13, 2016, the Company entered into an agreement to acquire TBNG, a joint venture partner in the TBNG JV, for cash consideration US$18.5 million (estimate after closing adjustments) (approximately CAD$24.3 million). TBNG holds a 41.5 percent participating interest in the TBNG JV. Valeura expects the TBNG Acquisition to close in Q4 2016 subsequent to various Turkish government approvals. The combination of the TBNG Acquisition, the Statoil Banarli Farm-in, the West Thrace Deep Rights Sale and the Offering, has significantly improved the Company's financial capacity for the 2017 drilling program. These transactions are expected to create an increased production base, increased cash flow base, and an improved working capital position for early 2017. Valeura anticipates a steady drilling program for 2017 balanced between the TBNG JV lands and the Banarli licenses. In addition, Valeura will be carried for a deep well to be drilled on the Banarli licenses testing the basin centered tight gas play under the Statoil Farm-in.

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

Liquidity, Financing and Capital Resources

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Opening cash position	**$ 4,611**	$ 8,082	**$ 6,973**	$ 5,928
Inflow of funds				
Funds from operations	**1,066**	1,949	**5,133**	8,585
Proceeds from stock option exercises	**-**	-	**437**	-
	1,066	1,949	**5,570**	8,585
Outflow of funds				
Capital expenditures	**(3,080)**	(741)	**(8,999)**	(7,092)
Decommissioning costs incurred	**-**	-	**-**	(19)
Changes in working capital and foreign exchange on cash	**(261)**	(986)	**(1,208)**	570
	(3,341)	(1,727)	**(10,207)**	(6,541)
Closing cash position	**$ 2,336**	$ 7,972	**$ 2,336**	$ 7,972

Capital Funding and Resources

As at September 30, 2016, Valeura's working capital balance was $3.7 million including cash of $2.3 million. Valeura's 2016 opening cash position was $7.0 million. In 2016, the Company utilized this opening cash balance plus funds flow from operations of $5.1 million to fund an exploration and development capital program of $9.0 million. The resultant cash balance at September 30, 2016 was $2.3 million after reflecting $0.4 million of proceeds from stock options exercised and a $1.2 million outflow of funds attributed to changes in working capital and foreign exchange on cash.

Financial Capacity

At the end of Q3 2016 the Company's working capital surplus was $3.7 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 remaining 2016 capital program of up to $1.0 million in Q4 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.

On October 13, 2016, and as amended on October 14, 2016, the Company entered into an agreement with a syndicate of underwriters pursuant to which the Company agreed to sell and the underwriters agreed to purchase, on an underwritten private placement basis 14,629,000 subscription receipts of the Company (the "Subscription Receipts") at a price of $0.75 per Subscription Receipt for total gross proceeds of approximately $11 million (the "Offering"). The Subscription Receipts (and the underlying common shares of the Corporation issuable pursuant thereto) are subject to a four-month hold period. Valeura will use the net proceeds to partially fund the TBNG Acquisition and to ramp-up the planned shallow gas drilling program on the TBNG JV lands and Banarli licences in 2017. The Offering closed November 3, 2016 and the ultimate completion of the Offering is subject to certain conditions, including, without limitation, the closing of the TBNG Acquisition.

Each Subscription Receipt represents the right to receive one common share of the Company, without the payment of any additional consideration or further action, upon satisfaction of certain conditions, including that all conditions to the completion of the TBNG Acquisition (but for the payment of the purchase price). If (i) the TBNG Acquisition is not completed on or before March 3, 2017, (ii) the Acquisition Agreement is terminated in accordance with its terms at an earlier time, or (iii) Valeura advises the underwriters or the public that it does not intend to proceed with the TBNG Acquisition, holders of Subscription Receipts will receive, for each Subscription Receipt held, a cash payment equal to the offering price per Subscription Receipt and any interest earned thereon during the term of the escrow.

Upon closing the aforementioned transactions, the Company will have significantly expanded its financial capacity. Valeura will receive from Statoil, US$6.0 million for back costs for the Banarli farm-in and US$15.0 million in proceeds on the West Thrace Deep Rights Sale (approximately CAD$27.6 million from Statoil). Combined with the equity offering above, a total of approximately CAD$38.6 million of funds will be received at closing. Subsequent to the payment of the TBNG Acquisition, estimated US$18.5 million (approximately CAD$24.3 million), and the Q4 2016 capital program, Valeura anticipates a closing working capital position in excess of $15.0 million.

The Company maintains considerable flexibility in managing its capital budget for 2016 and 2017. The budgeted capital spending is split between the TBNG JV lands and the Banarli licences with approximately 70 percent dedicated to the Banarli licences. The drilling and workover capital spending on the TBNG JV lands is focused on both drilling commitments and production growth. Early success on the Banarli licences gave management encouragement to focus 2017 spending on additional conventional natural gas drilling at Banarli. 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. In addition, Valeura continues to evaluate debt/loan facility alternatives to expand financial capacity in 2017.

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.

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

Selected Quarterly Information

				Three months ended
	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Total daily production (boe/d)	680	933	792	809
Average wellhead price ($/boe)	$ 56.10	$ 56.62	$ 60.09	$ 59.45
Petroleum and natural gas sales	3,510	4,809	4,328	4,425
Funds flow from operations	1,066	2,098	1,969	1,600
Per share, basic and diluted	0.02	0.04	0.03	0.03
Net income (loss)	(1,263)	(642)	(992)	287
Per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.02)	$ 0.01

				Three months ended
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Total daily production (boe/d)	794	1,045	1,223	1,180
Average wellhead price ($/boe)	$ 58.98	$ 59.35	$ 65.14	$ 63.73
Petroleum and natural gas sales	4,309	5,642	7,167	6,921
Funds flow from operations	1,949	2,963	3,673	3,654
Per share, basic and diluted	0.03	0.05	0.06	0.06
Net income (loss)	(169)	(787)	107	697
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 mitigate 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 had the option to terminate the sublease agreement after 18 months. On August 1, 2016, the Company renegotiated the sublease to reduce lease expenses (annual reduction of approximately $145,000) and will now carry the lease to term with no further option to terminate. The total amount committed under the renegotiated sublease is approximately $0.7 million including an estimate for operating costs over the term of the renegotiated sublease. At September 30, 2016 the remaining commitment of $0.7 million will be discharged in the following years: 2016 – $0.1 million, 2017 – $0.3 million, 2018 – $0.3 million, 2019 – $0.02 million.

Subsequent Events

On October 13, 2016, Valeura executed definitive agreements for the following transactions:

- Acquisition of the Company's Thrace Basin joint venture partner for US$22 million effective March 31, 2016, which after closing adjustments is expected to be reduced to approximately US$18.5 million (the TBNG Acquisition)

- Sale of deep rights on certain joint venture lands to Statoil Banarli Turkey B.V. for US$15 million in two separate tranches of US$12 million and US$3 million (the West Thrace Deep Rights Sale)

- Underwritten $11.0 million private placement financing of subscription receipts of the Company, to be issued at a price of $0.75 per subscription receipt (the Offering)

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 September 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 September 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. The Energy Minister decreased the BOTAS reference price by 10 percent on October 1, 2016.

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.