valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 31, 2016 and 2015

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of March 14, 2017 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 31, 2016 and 2015. Additional information relating to Valeura is available under Valeura's profile on www.sedar.com, including Valeura's Annual Information Form for the year ended December 31, 2016 ("2016 AIF"). The reporting currency is the Canadian dollar (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as at and for the years ended December 31, 2016 and 2015, and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 of the consolidated financial statements.

The discussion and analysis of oil and natural gas production is presented on a working-interest, before royalty basis. For the purpose of calculating unit of production information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe as a unit of measure may be misleading, particularly if used in isolation.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, reserves, environmental and decommissioning obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

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		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Cash provided by operating activities	**$ 657**	$ 1,955	**$ 6,294**	$ 11,693
Decommissioning costs incurred	**-**	-	**-**	19
Change in non-cash working capital	**258**	(355)	**(246)**	(1,527)
Funds flow from operations	**$ 915**	$ 1,600	**$ 6,048**	$ 10,185

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

Highlights and Selected Financial Information

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Financial				
Petroleum and natural gas sales	**$ 3,508**	$ 4,425	**$ 16,155**	$ 21,543
Net income (loss)	**(3,189)**	287	**(6,086)**	(562)
Per share, basic and diluted	**(0.06)**	-	**(0.10)**	(0.01)
Funds flow from operations[1]	**915**	1,600	**6,048**	10,185
Per share, basic and diluted	**$ 0.02**	$ 0.03	**$ 0.10**	$ 0.18
Production volumes				
Natural gas (Mcf/d)	**4,699**	4,805	**4,742**	5,745
Crude oil (bbl/d)	**12**	8	**9**	8
Total (boe/d)	**795**	809	**799**	966
Sales prices				
Natural gas (per Mcf)	**$ 7.96**	$ 9.93	**$ 9.20**	$ 10.20
Crude oil (per bbl)	**63.67**	44.51	**55.88**	50.35
Total (per boe)	**47.97**	59.45	**55.22**	61.10
Capital expenditures (net)	**$ 536**	$ 6,100	**$ 9,535**	$ 13,192
Working capital[2]			**3,786**	7,253
Cash			**1,987**	6,973
Weighted average shares outstanding				
Basic and diluted (thousands)[3]	**58,254**	57,906	**58,254**	57,906

Outstanding Share Data

	December 31, 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.

On February 24, 2017, the Company issued 14,629,000 common shares of the Company pursuant to 14,629,000 subscription receipts previously issued in connection with an underwritten private placement offering of subscription receipts (the "Offering"). The fully diluted number of shares outstanding as at March 14, 2017 is 78,062,821.

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1 Non-GAAP measure – see note regarding non-GAAP measures on page 1.
2 Working capital is current assets less current liabilities. Assets held for sale have been excluded from this calculation.
3 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 December 31, 2016, the Company held an interest in 21 exploration licences and production leases comprising approximately 0.63 million gross acres (0.31 million net acres) primarily in the Thrace Basin (87% of net lands) of northwest Turkey.

The assets in the Thrace Basin include a 100 percent working interest in two exploration licences in an early exploration and production stage (the "Banarli Licences"), 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 (the "TBNG JV") and a 35 percent working interest in three production leases with mature shallow gas production operations (the Edirne Leases"). 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.

Turkish Operations

TBNG JV

The TBNG JV lands provide 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 December 31, 2016, and exposure to a significant unconventional tight gas opportunity in the Thrace Basin. The lands encompass twelve production leases and two exploration licences, all located onshore, following the conversion process to the new petroleum law. As at December 31 2016, applications by the TBNG JV for one new exploration licence and two production leases remained under review by the General Directorate of Petroleum Affairs ("GDPA") of the Republic of Turkey. In February 2017, the TBNG JV was awarded the two production leases that were under application.

Natural gas is currently produced from approximately 85 wells (gross) on the TBNG JV lands. Approximately 65 percent of the natural gas produced from the TBNG JV lands in Q4 2016 was conventional 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.

TBNG Acquisition

On February 24, 2017, the Company's wholly-owned affiliate, Valeura Energy (Netherlands) B.V completed the acquisition of 100 percent of the shares of its joint venture partner in the TBNG JV, Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG"), for US$22 million in cash effective March 31, 2016 (the "TBNG Acquisition"), which after preliminary closing adjustments was reduced to a cash payment of US$20.9 million (which includes US$3.1 million held in escrow pending final reconciliation of the closing statement of adjustments). The Company's participating interest in the shallow rights on the TBNG JV Lands has increased to 81.5 percent and Valeura has 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 up to four shallow commitment wells on the West Thrace lands by late June 2017, of which one commitment well was completed in February 2017.

West Thrace Deep Rights Sale

On January 6, 2017, the Company's wholly-owned affiliate, Corporate Resources B.V ("CRBV") completed the sale and purchase agreement (the "West Thrace Deep Rights Sale") with Statoil Banarli Turkey B.V. ("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 which was received in early January.

Following the closing of the West Thrace Deep Rights Sale and the TBNG Acquisition, CRBV entered into a sale and purchase agreement with Statoil on March 10, 2017 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$3.0 million (the "Subsequent West Thrace Deep Rights Sale"). Upon the closing of 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. The Subsequent West Thrace Deep Rights Sale is contingent on Turkish government approval for the associated licence interest transfer. Closing of this transaction is expected in Q2 2017.

Banarli 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. As at December 31, 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 drilled in June 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 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.

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.

Banarli Farm-in

On January 6, 2017, the Company closed the farm-in agreement for the exploration of the deeper formations below approximately 2,500 metres on the Company's 100 percent owned and operated Banarli exploration licences in accordance with the farm-in agreement between CRBV and Statoil (the "Banarli Farm-in"). Under the Banarli Farm-in, Statoil will have the option to earn a 50 percent interest 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 of the Banarli Farm-in and retains a 100 percent interest in the shallow formations in the Banarli exploration licences. Valeura has received US$6.0 million for up-front payments as a contribution to back costs incurred on the Banarli licences.

Turkish Political Events

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 was extended to April 19, 2017. The current situation in Turkey has resulted in a 24 percent devaluation of the Turkish Lira against the Canadian Dollar during 2016. 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, 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 on information available up to the date of this MD&A.

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

The situation in Turkey remains uncertain and significant changes could occur which could materially impact the assumptions and estimates made in this MD&A. 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.

Outlook

The Company is planning a capital expenditure program of $13 to 15 million (net) in 2017 focussed entirely on the shallow gas business. This level of spending is contingent on closing the Subsequent West Thrace Deep Rights Sale, and some stabilization of the Turkish Lira exchange rate and the BOTAS Reference Price (denominated in Turkish Lira). The capital program is expected to include drilling of up to seven wells (gross) in the shallow formations on the TBNG JV lands and Banarli Licences, targeting 2017 exit rate sales of approximately 1,500 boe/d. This outlook is lower than earlier preliminary projections due to delays in completing the inter-linked transformational transactions, including the Banarli Farm-in, the West Thrace Deep Rights Sale, the TBNG Acquisition and the Offering, reflecting a longer than expected Turkish government approval process.

The Company also expects that the Banarli Farm-in program, fully funded by Statoil and operated by Valeura, will commence with the spudding of a deep exploration well in Q2 217 under Phase 1 of the Banarli Farm-in and the start of the 3D seismic acquisition in Q3 2017 under Phase 2.

Results of Operations

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Petroleum and natural gas sales	**$ 3,508**	$ 4,425	**$ 16,155**	$ 21,543
Royalties	**(444)**	(598)	**(2,102)**	(2,913)
Production costs	**(620)**	(510)	**(2,232)**	(2,243)
Operating netback[4]	**2,444**	3,317	**11,821**	16,387
Other income	**184**	253	**846**	831
General and administrative expenses	**(1,308)**	(1,763)	**(5,376)**	(6,298)
Transaction costs	**(356)**	-	**(794)**	-
Realized foreign exchange loss	**(49)**	(207)	**(449)**	(735)
Funds flow from operations[3]	**915**	1,600	**6,048**	10,185
Non-cash expenses				
Share-based compensation	**(107)**	(164)	**(386)**	(639)
Accretion on decommissioning liabilities	**(196)**	(230)	**(876)**	(827)
Transaction costs	**-**	-	**(65)**	-
Unrealized foreign exchange gain (loss)	**(1,586)**	1,439	**(2,583)**	381
Depletion and depreciation	**(1,860)**	(1,960)	**(7,436)**	(8,996)
Impairment	**(1,048)**	-	**(1,048)**	-
Deferred tax recovery (expense)	**693**	(398)	**260**	(666)
Net Income (loss)	**$ (3,189)**	$ 287	**$ (6,086)**	$ (562)

[4] 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)

Sales Volumes

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Natural gas (Mcf/d)	**4,699**	4,805	**4,742**	5,745
Crude oil (bbl/d)	**12**	8	**9**	8
Total (boe/d)	**795**	809	**799**	966

Sales volumes for Q4 2016 and the year ended December 31, 2016 decreased to 795 boe/d and 799 boe/d, respectively, compared to 809 boe/d and 966 boe/d for the same periods in 2015 due to natural declines and reduced drilling and other capital expenditures on the TBNG JV lands.

The TBNG Acquisition and West Thrace Deep Rights Sale have expanded the Company's interest in the TBNG JV, and have provided operatorship and funding 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.

Operating Netbacks (per boe)

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Petroleum and natural gas sales	**$ 47.97**	$ 59.45	**$ 55.22**	$ 61.10
Royalties	**(6.07)**	(8.04)	**(7.18)**	(8.26)
Production costs	**(8.47)**	(6.85)	**(7.63)**	(6.36)
Operating netback	**$ 33.43**	$ 44.56	**$ 40.41**	$ 46.48

Pricing Information

	Three months ended		Years ended	
Average benchmark price	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Natural gas – BOTAS (per Mcf)[5]	**TL 19.84**	TL 21.93	**TL 21.41**	TL 21.93
Natural gas – BOTAS (per Mcf)	**$ 8.09**	$ 10.07	**$ 9.41**	$ 10.32
Average exchange rate (TL/CAD)	**2.453**	2.177	**2.276**	2.126

	Three months ended		Years ended	
Average realized prices	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Natural gas (per Mcf)	**$ 7.96**	$ 9.93	**$ 9.20**	$ 10.20
Crude oil (per bbl)	**$ 63.67**	$ 44.51	**$ 55.88**	$ 50.35

[5] 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 Level-2 Wholesale Tariff benchmark is shown herein as a reference price. See the 2016 AIF for further discussion.

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

The following table shows the percentage change in Valeura's realized prices for Q4 2016 and YTD 2016 compared to the same periods in 2015:

	Q4 2016	**YTD 2016**
Natural gas	-20%	-10%
Crude oil	43%	11%

Natural gas prices remain relatively strong in Turkey compared to North America, despite recent declines due to the weakening of the Turkish Lira ("TL") and a reduction in the benchmark price for domestic sales. Natural gas prices under sales contracts for all production in the Thrace Basin are linked to the BOTAS benchmark price in TL. Between October 1, 2014 and September 30, 2016 the BOTAS benchmark price remained unchanged but effective October 1, 2016 the price was reduced by 10 percent. The effective Canadian Dollar converted BOTAS benchmark price was $8.09 per thousand cubic feet ("Mcf") for Q4 2016. Natural gas sales from the TBNG JV lands are under direct sales contracts to industrial buyers in the area. All natural gas sales contracts for the TBNG JV lands 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 Q4 2016 was $7.72 per Mcf, which compares to TBNG JV natural gas price realizations of $8.18 per Mcf in the same period.

The Company's Q4 2016 average realized natural gas price in Turkey decreased by 20 percent to $7.96 per Mcf from $9.93 per Mcf in Q4 2015 due primarily the decrease in the BOTAS benchmark price effective October 1, 2016, 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 Q4 2016 of $7.96 per Mcf represents a two percent discount to the BOTAS benchmark price.

Petroleum and Natural Gas Sales Revenues

	Three months ended		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Natural gas	**$ 3,440**	$ 4,392	**$ 15,971**	$ 21,389
Crude oil	**68**	33	**184**	154
Total revenues	**$ 3,508**	$ 4,425	**$ 16,155**	$ 21,543

The composition of petroleum and natural gas sales revenues for Q4 2016 and the year ended December 31, 2016 was approximately 99 percent natural gas and one percent crude oil. Revenues for Q4 2016 and the year ended December 31, 2016 decreased in comparison to the same periods in 2015 due primarily to lower volumes from the TBNG JV lands and lower realized natural gas prices.

Royalties

	Three months ended		**Years ended**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Royalties	**$ 444**	$ 598	**$ 2,102**	$ 2,913
Percentage of revenue	**12.7%**	13.5%	**13.0%**	13.5%

Royalties in Q4 2016 and the year ended December 31, 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 only on the TBNG JV Lands of one percent.

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

Production Costs

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Production costs	**$ 620**	$ 510	**$ 2,232**	$ 2,243
$ per boe	**8.47**	6.85	**7.63**	6.36

Total production costs in 2016 decreased slightly in comparison to 2015 due to the weakening of the Turkish Lira against the Canadian Dollar offset by employee terminations costs in the TBNG JV. The higher unit operating costs in 2016 in comparison to 2015 are reflective of the level of fixed costs and lower production.

General and Administrative Expenses

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
General and administrative expenses	**$ 1,400**	$ 1,354	**$ 5,953**	$ 6,324
Business development	**21**	585	**142**	798
Total	**1,421**	1,939	**6,095**	7,122
Recoveries	**(113)**	(176)	**(719)**	(824)
Total general and administrative expenses	**$ 1,308**	$ 1,763	**$ 5,376**	$ 6,298

Total general and administrative expenses for Q4 2016 and the year ended December 31, 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 and a decrease in business development costs. The high business development costs in 2015 were associated with efforts by management to obtain long term sources of equity financing along with a proposed lending facility. The business development efforts for 2015 and 2016 have translated into successful farm-in and acquisition transactions for which the costs are reflected in transaction costs in 2016.

Transaction Costs

During Q4 2016 and year ended December 31, 2016, the Company recorded transactions costs of $0.4 million and $0.9 million, respectively, compared to no transaction costs in 2015. Transactions costs in 2016 related to expenses associated with the Banarli Farm-in, West Thrace Deep Rights Sale and TBNG Acquisition. Transaction costs include primarily legal fees, advisory fees and other costs related to due diligence reviews.

Foreign Exchange

During Q4 2016 and the year ended December 31, 2016, the Company recorded a foreign exchange loss of $1.6 million and $3.0 million, respectively, compared to a foreign exchange gain of $1.2 million and a loss of $0.4 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 and United States Dollar.

The functional currency for the Company's Turkish operations is the TL. 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 TL, without a corresponding increase in the BOTAS benchmark 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 Q4 2016 and the year ended December 31, 2016, the Company recorded other income of $0.2 million and $0.8 million, respectively, compared to $0.3 million and $0.8 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[6]

Funds flow from operations for Q4 2016 and the year ended December 31, 2016 was $0.9 million and $6.0 million, respectively, compared to $1.6 million and $10.2 million for the same periods in 2015. The decrease in funds flow from operations for Q4 2016 was due to lower sales revenue, increased production costs and transactions costs incurred in the quarter, partially offset by lower general and administrative expenses. The decrease in funds flow from operations for the year ended December 31, 2016, was due to lower sales revenue and transaction costs incurred during the year, partially offset by lower general and administrative expenses and lower realized foreign exchange losses.

Assets Held for Sale

In October 2016, Valeura entered into a sale and purchase agreement to sell the Company's 40 percent participating interest in the deep formations below approximately 2,500 metres depth on certain TBNG JV lands. On January 6, 2017 the Company closed this West Thrace Deep Rights Sale for US$12.0 million. At December 31, 2016, the Company reclassified these assets from exploration and evaluation assets to assets held for sale and measured them using a fair value less cost to sell approach. This resulted in $16.6 million being recorded in assets held for sale.

Non-Cash Expenses:

Share-Based Compensation

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

Share-based compensation expense for Q4 2016 and the year ended December 31, 2016 was $0.1 million and $0.4 million, respectively, compared to $0.2 million and $0.6 million for the same periods in 2015. The decrease for the year ended December 31, 2016 can be attributed to a lower number of stock options outstanding in 2016 compared to 2015. During 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 Q4 2016 and the year ended December 31, 2016 was $0.2 million and $0.9 million, respectively, compared to $0.2 million and $0.8 million for the same periods in 2015. Accretion on decommissioning liabilities remained consistent due to the reduced drilling activity in 2016 and the associated impact on decommissioning liabilities.

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

Impairment

Impairment for Q4 2016 and the year ended December 31, 2016 was $1.0 million and $1.0 million respectively, compared to $nil for the same periods in 2015. The carrying value of Valeura's Edirne and Gaziantep assets exceeded the recoverable amount resulting in an impairment of $0.2 million and $0.8 million respectively.

Depletion and Depreciation

Depletion and depreciation for Q4 2016 and the year ended December 31, 2016 was $1.9 million and $7.4 million, respectively, compared to $2.0 million and $9.0 million for the same periods in 2015. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves. The decrease in 2016 is due to reduced production volumes.

On a per unit basis, depletion and depreciation for the Q4 2016 and the year ended December 31, 2016 was $25.43 per boe and $25.43 per boe, respectively, compared to $26.33 per boe and $25.51 per boe for the same periods in 2015.

Deferred Tax

Deferred tax for Q4 2016 and the year ended December 31, 2016 was a recovery $0.7 million and $0.3 million, respectively, compared to an expense of $0.4 million and of $0.7 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 Q4 2016 and the year ended December 31, 2016 was a loss of $6.6 million and $11.5 million, respectively, compared to a gain of $4.2 million and a loss of $2.9 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. For the year ended December 31, 2016, the currency translation adjustment losses were due to the weakening of the Turkish Lira against the Canadian Dollar.

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

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Geological and geophysical	**$ 134**	$ 564	**$ 1,094**	$ 6,407
Drilling & completions	**370**	5,041	**7,116**	5,828
Equipping & facilities	**6**	468	**1,206**	590
Workovers & recompletions	**21**	23	**93**	344
Other	**5**	4	**26**	23
Total	**$ 536**	$ 6,100	**$ 9,535**	$ 13,192

Capital spending for 2016 was $9.5 million, including $7.1 million for drilling and completion operations, $1.1 million for geological and geophysical operations and $1.2 million for equipping and facility operations.

During 2016, the Company continued to focus on its 100 percent owned and operated Banarli licences in the Thrace Basin. The Company drilled the Bati Gurgen-2 well which was a follow up well to the Bati Gurgen-1 well focusing on the medium-depth conventional stacked sands in the Osmancik formation. The well was placed on-stream September 26, 2016. 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.

During Q4 2016, the Company spent $0.4 million on drilling and completion operations and $0.1 million in geological and geophysical operations. The Company completed workovers on one gross shallow gas well (0.4 net) on the TBNG JV lands.

The combination of the TBNG Acquisition, the 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 the 2017 drilling program will include wells on the TBNG JV lands and the Banarli Licenses. In addition, Valeura will be carried by Statoil for a deep well to be drilled on the Banarli Licenses testing the basin centered tight gas play under the Banarli Farm-in.

Credit Facilities

The Company has a general credit facility in the amount of US$0.3 million with a Turkish bank for the purpose of obtaining letters of credit required by the Turkish government. As at December 31, 2016, the Company has letters of credit totaling US$0.3 million issued and outstanding (December 31, 2015 – US$0.3 million). The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set as the purpose of this facility is for issuance of letters of credit only.

Share Capital

Common shares	Number of Shares	Amount
Balance, December 31, 2015	57,906,135	$ 135,778
Options exercised	546,666	743
Shares issued for services	66,520	65
Balance, December 31, 2016	**58,519,321**	**$ 136,586**

As at December 31, 2016, Valeura had 58,519,321 common shares outstanding and 4,914,500 outstanding options, for a total number of shares outstanding of 63,433,821, assuming exercise of all options. The total number of shares outstanding at March 14, 2017 is 78,062,821 assuming exercise of all outstanding stock options and adding 14,629,000 common shares from the Offering which were issued on February 24, 2017.

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

Liquidity, Financing and Capital Resources

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Opening cash position	**$ 2,336**	$ 7,972	**$ 6,973**	$ 5,928
Inflow of funds				
Funds from operations	**915**	1,600	**6,048**	10,185
Proceeds from stock options exercises	**-**	-	**437**	-
Changes in working capital and foreign exchange on cash	**-**	3,501	**-**	4,071
	915	5,101	**6,485**	14,256
Outflow of funds				
Capital expenditures	**(536)**	(6,100)	**(9,535)**	(13,192)
Decommissioning costs incurred	**-**	-	**-**	(19)
Changes in working capital and foreign exchange on cash	**(728)**	-	**(1,936)**	-
	(1,264)	(6,100)	**(11,471)**	(13,211)
Closing cash position	**$ 1,987**	$ 6,973	**$ 1,987**	$ 6,973

Capital Funding and Resources

As at December 31, 2016, Valeura's working capital[7] balance was $3.8 million including cash of $2.0 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 $6.0 million to fund an exploration and development capital program of $9.5 million. The resultant cash balance at December 31, 2016 was $2.0 million after reflecting $0.4 million of proceeds from stock options exercised and a $1.9 million outflow of funds attributed to changes in working capital and foreign exchange on cash.

Financial Capacity

At the end of 2016 the Company's working capital[7] surplus was $3.8 million.

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 Offering closed November 3, 2016 and the ultimate completion of the Offering was subject to certain conditions, including, without limitation, the closing of the TBNG Acquisition. On February 24, 2017 the TBNG Acquisition closed, 14,629,000 common shares were issued pursuant to the 14,629,000 subscription receipts and gross proceeds of approximately $11 million from the Offering were released from escrow. Valeura used the net proceeds to partially fund the TBNG Acquisition and will direct funds to a ramp-up of shallow gas drilling TBNG JV lands and Banarli Licenses which is expected to commence in Q2 2017.

[7] Working capital is current assets less current liabilities. Assets held for sale have been excluded from this calculation.

As a result of closing the aforementioned transactions, the Company has significantly expanded its financial capacity. Valeura has received from Statoil, US$6.0 million for back costs for the Banarli farm-in, US$12.0 million in proceeds on the West Thrace Deep Rights Sale and expects an additional US$3.0 million upon closing the Subsequent West Thrace Deep Rights Sale (approximately CAD$27.5 million from Statoil). Combined with the Offering, a total of approximately CAD$34.6 million of funds has been received with an additional CAD$3.9 million expected upon closing the Subsequent West Thrace Deep Rights Sale. Subsequent to the payment of the TBNG Acquisition, estimated at US$20.9 million (approximately CAD$27.4 million), Valeura anticipates sufficient working capital and funds flow from operations to fund a target capital program in 2017 in the range of $13 to 15 million (net).

The Company maintains considerable flexibility in managing its capital budget for 2017. As a result of the TBNG Acquisition, the Company is now the operator of the TBNG JV, which provides a greater level of control of capital spending. The budgeted capital spending is expected to be split approximately evenly between the TBNG JV lands and the Banarli Licences. The drilling and workover capital spending on the TBNG JV lands is focused on both drilling commitments and production growth. 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

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.

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

Selected Quarterly Information

	Three months ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total daily production (boe/d)	795	680	933	792
Average wellhead price ($/boe)	$ 47.97	$ 56.10	$ 56.62	$ 60.09
Petroleum and natural gas sales	3,508	3,510	4,809	4,328
Funds flow from operations	915	1,066	2,098	1,969
Per share, basic and diluted	0.02	0.02	0.04	0.03
Net income (loss)	(3,189)	(1,263)	(642)	(992)
Per share, basic and diluted	$ (0.06)	$ (0.02)	$ (0.01)	$ (0.02)

	Three months ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total daily production (boe/d)	809	794	1,045	1,223
Average wellhead price ($/boe)	$ 59.45	$ 58.98	$ 59.35	$ 65.14
Petroleum and natural gas sales	4,425	4,309	5,642	7,167
Funds flow from operations	1,600	1,949	2,963	3,673
Per share, basic and diluted	0.03	0.03	0.05	0.06
Net income (loss)	287	(169)	(787)	107
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 is benefiting from relatively high natural gas prices and netbacks in Turkey.
- With significant drilling and production operations in Turkey, the Company has a high level of foreign exchange and currency translation exposure.

Fourth Quarter Review

During Q4 2016, petroleum and natural gas sales were up by 17 percent from Q3 2016 reflecting increased production due to first gas sales from the Bati Gurgen-2 well which was placed on-stream September 26, 2016. Petroleum and natural gas sales were down two percent from Q4 2015 due to natural declines and reduced drilling and other capital expenditures on the TBNG JV lands offset by production from the Bati Gurgen-1 and Bati Gurgen-2 wells. These sales yielded funds flow from operations of $0.9 million in Q4 2016. The Company spent $0.5 million on exploration and development capital which was funded by funds flow from operations and the existing cash position. Net loss of $3.2 million was recorded in Q4 2016, which reflects recognition of $1.9 million of depletion and depreciation, $1.0 million of impairment, $0.2 million of share-based compensation, $0.2 million of accretion on decommissioning liabilities and $1.6 million of foreign exchange losses.

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

Selected Annual Information

			Years Ended
	December 31, 2016	December 31, 2015	December 31, 2014
Petroleum and natural gas sales	$ 16,155	$ 21,543	$ 24,998
Cash provided by operations	6,294	11,693	12,141
Funds flow from operations	6,048	10,185	13,586
Per share, basic and diluted	0.10	0.18	0.23
Net income (loss)	(6,086)	(562)	1,090
Per share, basic and diluted ($/share)	(0.10)	(0.01)	0.02
Daily production (boe/d)	799	966	1,143
Sales price ($/boe)	55.22	61.10	59.92
Cash	1,987	6,973	5,928
Total assets	75,890	101,212	99,165
Total long term liabilities	13,017	19,945	17,124
Net working capital[8]	$ 3,786	$ 7,253	$ 10,044

Valeura's petroleum and natural gas sales, cash provided by operations, funds flow from operations and net income are all impacted by production levels and commodity pricing. Daily production in 2016 declined 17 percent from 2015 due to natural declines and reduced drilling and other capital expenditures. Natural gas prices were strong in Turkey over the three year period but have been negatively impacted by the devaluation of the TL to the Canadian dollar and a 10 percent decrease in the BOTAS benchmark price effective October 1, 2016. Total assets in 2016 were negatively impacted by the devaluation of the TL against the Canadian Dollar.

Commitments

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 December 31, 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.

8 Working capital is current assets less current liabilities. Assets held for sale have been excluded from this calculation.

Subsequent Events

The TBNG Acquisition will be accounted for as a business combination under IFRS 3. The preliminary purchase price equation (in Canadian Dollars), based on the best information available regarding TBNG working capital on February 24, 2017 is as follows:

Consideration		
Cash	$	27,390

Purchase Price Equation		
Cash	$	5,293
Non-cash working capital		(2,233)
Property, plant and equipment and exploration and evaluation assets		34,941
Deferred tax liability		(3,212)
Decommissioning obligations		(7,399)
	$	27,390

This preliminary price purchase equation is subject to change based on finalization of working capital adjustments and finalization or reserves evaluation.

New Accounting Pronouncements and Critical Accounting Policies

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Critical judgments in applying accounting policies:

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

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

Key sources of estimation uncertainty:

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

- Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 and the COGE Handbook.
- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.
- The Company's estimate of share-based compensation is dependent upon estimates of historic volatility and forfeiture rates.
- The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Adoption of Accounting Standards

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

In April 2016, the IASB issued its final amendment to IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is to be recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and timing of the revenue recognized. The new standard applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts. The new standard is to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with early adoption permitted. Valeura is currently in the process of identifying underlying revenue contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by Valeura on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements. Valeura does not currently have financial instrument contracts to which it applies hedge accounting.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will be applied by Valeura on January 1, 2019 and the Company is currently evaluating the impact of the standard on its financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the officers concluded that Valeura's DC&P were effective as at December 31, 2016.

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

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2016 and concluded that as of December 31, 2016, Valeura maintained effective ICFR. The Company uses the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") – Integrated Framework ("2013 Framework"). Valeura has designed its internal controls over financial reporting based on the 2013 framework. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

There were no changes to Valeura's ICFR during the year ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off Balance Sheet Arrangements

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

The reader is referred to Valeura's 2016 AIF for a more complete description of business risks and uncertainties.

Political Risks

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.

Variations in Foreign Exchange Rates and Interest Rates

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

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

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

Foreign Operations

The Company pursues operations outside of Canada. As such, the Company's operations will be subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, interpretation or renegotiation of existing contracts, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. Problems may also arise due to the quality or failure of locally obtained equipment or technical support, which could result in failure to achieve expected target dates for exploration operations or result in a requirement for greater expenditure.

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

Prices, Markets and Marketing

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

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

The BOTAS price is a reference price fixed by the Turkish government. The natural gas reference price is correlated to contract prices for natural gas imports into Turkey. Any reduction to the price of imported gas would allow the Turkish government to reduce natural gas subsidies and pay down debt and may not result in a pass-through reduction in the reference price. Weakening of the TL/USD exchange rate has the potential to cause the government gas subsidy to increase. Considering the high natural gas prices in the surrounding region, and the devaluation of the Turkish Lira against the United States Dollar throughout 2016, the current level of natural gas pricing in Turkey is not expected to decline any further in the near term. There is potential for some of the larger regional natural gas producers such as Iran and Russia to renegotiate more favorable USD priced contracts with the Turkish government. As a result of natural gas infrastructure restrictions and the lack of gas-on-gas competition in Turkey, Valeura does not have the same susceptibility that other producers have to fluctuations in global commodity prices.

Volatility of Commodity Prices

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

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

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

Capital Requirements

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

Third Party Credit Risk

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

Exploration, Development and Production

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

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

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

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

Uncertainty of Reserve Estimates

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

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

Environment, Health and Safety

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

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

Management of Growth

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

Insurance

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

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 2017; operational activities and drilling plans on the Banarli Licences and TBNG JV lands; the final adjusted purchase price of TBNG having regard to that portion held in escrow; residual working capital in TBNG at closing; the ability to close the Subsequent West Thrace Deep Rights Sale and the expected timing; the expected timing to spud the first deep exploration well under the Banarli Farm-in; and, the potential of a basin-centered gas play in the deep formations on the Banarli licences and West Thrace lands; 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 up to three additional shallow wells on the West Thrace lands by late June 2017; and the planned drilling and seismic program in 2017 for the Banarli Farm-in.

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 Subsequent West Thrace Deep Rights; the ability to spud the first deep exploration well in Q2 2017; 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 not satisfying the conditions for closing 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 2016 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.