MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017 and 2016

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of May 10, 2017 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month periods ended March 31, 2017 and 2016. 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

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 2016 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, 2016.

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.

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

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2017	**March 31, 2016**
Financial		
Petroleum and natural gas sales	**$ 3,088**	$ 4,328
Net loss	**(2,001)**	(992)
Per share, basic and diluted	**(0.03)**	(0.02)
Funds flow from (used in) operations[1]	**(2,883)**	1,969
Per share, basic and diluted	**$ (0.04)**	$ 0.03
Production volumes		
Natural gas (Mcf/d)	**4,825**	4,697
Crude oil (bbl/d)	**3**	9
Total (boe/d)	**807**	792
Sales prices		
Natural gas (per Mcf)	**$ 7.06**	$ 10.05
Crude oil (per bbl)	**72.83**	39.75
Total (per boe)	**42.49**	60.09
Exploration and development capital	**1,932**	2,704
Acquisitions	**21,450**	-
Dispositions	**(22,315)**	-
Working capital[2]	**7,545**	6,467
Cash	**$ 5,760**	$ 3,726
Weighted average shares outstanding		
Basic and diluted (thousands)[3]	**64,208**	57,906

Funds Flow from Operations

	Three months ended	
	March 31, 2017	**March 31, 2016**
Funds flow from (used in) operations	**$ (2,883)**	$ 1,969
Less transaction related items:		
Transactions costs	**918**	-
Realized foreign exchange loss	**1,604**	-
Current tax	**1,120**	-
Operations income	**$ 759**	$ 1,969

Funds flow from operations for Q1 2017 was negatively impacted by TBNG transaction related expenses that would not be considered ongoing expenses. Transactions costs are legal expenses and advisory fees incurred as part of the TBNG Acquisition (as defined herein). The realized foreign exchange loss relates to the translation of funds repatriated and does not reflect a cash outflow for Q1 2017. The current tax represents a preliminary estimate of taxes incurred primarily for the Statoil (as defined herein) funding on the sale of the West Thrace

[1] Non-GAAP measure – see note regarding non-GAAP measures on page 16.

[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.

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

lands. Future drilling expenditures for 2017 will provide a significant reduction to this temporary current tax obligation.

Outstanding Share Data

	March 31, 2017
Common shares	73,148,321
Stock options	5,914,500
Fully diluted	79,062,821

The Company

Valeura and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "VLE".

Valeura was established in 2010 to grow internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest, which included the Mediterranean Basin. The Company completed its first international transaction in Turkey during 2010 and since that time has executed a number of other transactions and won several new exploration licence awards in the country. As at March 31, 2017, the Company held an interest in 21 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.53 million gross acres (0.43 million net acres of shallow rights and 0.3 million net acres of deep rights).

The Thrace Basin assets include a 100 percent working interest in two exploration licences in an early exploration and production stage (the "Banarli Licences"), a 81.5 percent working interest in 16 production leases and exploration licences under a joint venture, which Valeura operates, 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 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 344,781 gross acres of onshore land as at March 31, 2017, and exposure to a significant unconventional tight gas opportunity in the Thrace Basin. The lands encompass 14 production leases and two exploration licences. As at March 31 2017, applications by the TBNG JV for one new exploration licence 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 at year-end 2016.

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 Q1 2017 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 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$20.7 million (CAD$27.1 million). The Company's participating interest in the shallow rights on the TBNG JV lands thereby increased to 81.5 percent and Valeura became the operator. Operatorship has facilitated Valeura's ability to work with its remaining partner Pinnacle Turkey Inc. ("PTI") to accelerate the early ramp-up of exploration and development activities on the TBNG JV lands.

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 transactions 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 re-started and the term was 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 March 31, 2017, 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.

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 Banarli 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 ("TL"), sovereign debt ratings downgrades and a state of emergency declaration. On April 16, 2017 Turkey held a referendum on a proposed new constitution which was endorsed by a narrow margin. The result served to stabilize the TL value against the Canadian Dollar. The Company will continue to monitor conditions, including the safety of personnel and operations, the security situation generally, impact on the TL 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.

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.

Outlook

The Company is targeting a net capital expenditure program of $15 to $16 million (net) in 2017 (excluding acquisitions and dispositions in Q1 2017), directed entirely to the shallow gas business. The Company has the flexibility to control the pace of spending since it is now the operator of the TBNG JV. 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 to deliver 2017 exit rate net sales of approximately 1,500 boe/d.

The first Banarli Farm-in well, Yamalik-1, is expected to spud in May 2017. The 3D seismic program is expected to commence in Q3 2017.

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

Results of Operations

	Three months ended	
	March 31, 2017	**March 31, 2016**
Petroleum and natural gas sales	**$ 3,088**	$ 4,328
Royalties	**(399)**	(579)
Production costs	**(609)**	(447)
Operating netback[4]	**2,080**	3,302
Other income	**335**	233
General and administrative expenses	**(1,656)**	(1,373)
Transaction costs	**(918)**	-
Realized foreign exchange loss	**(1,604)**	(193)
Current tax expense	**(1,120)**	-
Funds flow from (used in) operations[5]	**(2,883)**	1,969
Non-cash expenses		
Share-based compensation	**(96)**	(153)
Accretion on decommissioning liabilities	**(282)**	(227)
Unrealized foreign exchange gain (loss)	**650**	(481)
Depletion and depreciation	**(1,898)**	(1,832)
Deferred tax recovery (expense)	**2,508**	(268)
Net loss	**$ (2,001)**	$ (992)

Sales Volumes

	Three months ended	
	March 31, 2017	**March 31, 2016**
Natural gas (Mcf/d)	**4,825**	4,697
Crude oil (bbl/d)	**3**	9
Total (boe/d)	**807**	792

Sales volumes in Q1 2017 increased to 807 barrels of oil equivalent per day ("boe/d") compared to 792 boe/d for the same period in 2016. The increase in production is due to the TBNG Acquisition offset by 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.

4 Non-GAAP measure – see note regarding non-GAAP measures on page 16.
5 Non-GAAP measure – see note regarding non-GAAP measures on page 16.

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Operating Netbacks (per boe)

	Three months ended	
	March 31, 2017	**March 31, 2016**
Petroleum and natural gas sales	**$ 42.49**	$ 60.09
Royalties	**(5.50)**	(8.04)
Production costs	**(8.37)**	(6.20)
Operating netback	**$ 28.62**	$ 45.85

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2017**	**March 31, 2016**
Natural gas – BOTAS (per Mcf)[6]	**TL 19.84**	TL 21.93
Natural gas – BOTAS (per Mcf)	**$ 7.12**	$ 10.26
Average exchange rate (TL/CAD)	**2.785**	2.1370

	Three months ended	
Average realized prices	**March 31, 2017**	**March 31, 2016**
Natural gas (per Mcf)	**$ 7.06**	$ 10.05
Crude oil (per bbl)	**72.83**	39.75

Natural gas prices remain relatively strong in Turkey compared to North America, despite recent declines due to the weakening of the TL and a reduction in the benchmark price for domestic sales implemented on October 1, 2016. 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 $7.12 per thousand cubic feet ("Mcf") for Q1 2017. 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 the majority ofbenefit from this fee arrangement and the associated proceeds by virtue of its current 81.5 percent working interest in the TBNG JV facilities.

The Company's Q1 2017 average realized natural gas price in Turkey decreased by 42 percent to $7.06 per Mcf from $10.05 per Mcf in Q1 2016 due primarily to the decrease in the BOTAS benchmark price effective October 1, 2016, the devaluation of the TL against the Canadian Dollar and the increased proportion of sales from Banarli. The average realized natural gas price in Turkey for Q1 2017 of $7.06 per Mcf represents less than a 1.0 percent discount to the BOTAS benchmark price.

[6] 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)

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2017	**March 31, 2016**
Natural gas	**$ 3,065**	$ 4,296
Crude oil	**23**	32
Total revenues	**$ 3,088**	$ 4,328

The composition of petroleum and natural gas sales revenues for Q1 2017 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q1 2017 decreased in comparison to the same period in 2016 due primarily to lower realized natural gas prices in Turkey as a result of the devaluation of the TL against the Canadian Dollar.

Royalties

	Three months ended	
	March 31, 2017	**March 31, 2016**
Royalties	**$ 399**	$ 579
Percentage of revenue	**12.9%**	13.4%

Royalties in Q1 2017 decreased in comparison to the same period in 2016 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.

Production Costs

	Three months ended	
	March 31, 2017	**March 31, 2016**
Production costs	**$ 609**	$ 447
$ per boe	**8.37**	6.20

Production costs in Q1 2017 increased in comparison to the same period in 2016 due primarily to the TBNG Acquisition. The higher unit operating costs in Q1 2017 in comparison to 2016 are reflective of the level of fixed costs and lower production prior to the TBNG Acquisition. The Company anticipates a reduction in production costs per boe through increased operating production from the initiation of the Q2 2017 drilling program.

General and Administrative Expenses

	Three months ended	
	March 31, 2017	**March 31, 2016**
General and administrative expenses	**$ 1,785**	$ 1,762
Business development	**12**	-
Total	**1,797**	1,762
Recoveries	**(141)**	(389)
Total general and administrative expenses	**$ 1,656**	$ 1,373

Total general and administrative expenses (before recoveries) for Q1 2017 were in line with Q1 2016 despite increased general and administrative expenses as a result of the TBNG Acquisition due to severance costs incurred in 2016. G&A recoveries were low in Q1 2017 during the transition period of the TBNG Acquisition, however, for the remainder of the year the Company anticipates increased overhead recoveries from joint venture partners.

Transaction Costs

During Q1 2017, the Company recorded transactions costs of $0.9 million compared to $nil for the same period in 2016. Transactions costs in 2017 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 Q1 2017, the Company recorded a foreign exchange loss of $1.0 million, compared to a foreign exchange loss of $0.7 million for the same period in 2016. The foreign exchange loss in Q1 2017 is due to the weakening of the TL against the Canadian 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 TL may impair the ability of the Company to effectively manage foreign exchange exposure. Further 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 TL and any cost effective ways to mitigate such exposure.

Other Income

During Q1 2017, the Company recorded other income of $0.3 million compared to $0.2 million for the same period in 2016. Other income is comprised of processing and marketing income and interest income related to cash on hand. The increase in Q1 2017 is attributed to higher third party volumes processed.

Assets Held for Sale

The Company entered into a sale and purchase agreement with Statoil on March 10, 2017 with respect to the Subsequent West Thrace Deep Rights Sale. The Subsequent West Thrace Deep Rights Sale is contingent on Turkish government approval for the associated licence interest transfers. This resulted in $4.2 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 issued to directors, officers, employees and certain other service providers of the Company. Share-based compensation expense for Q1 2017 was $0.1 million compared to $0.2 million for the same period in 2016.

The Company granted 1,000,000 options with an exercise price of $0.73 on March 17, 2017.

Accretion on Decommissioning Liabilities

Accretion on decommissioning liabilities for Q1 2017 was $0.3 million compared to $0.2 million for the same period in 2016. The increase is due to the TBNG Acquisition and an increased percentage ownership in the TBNG JV well locations and the associated impact on decommissioning obligations.

Depletion and Depreciation

Depletion and depreciation for Q1 2017 was $1.9 million compared to $1.8 million for the same period in 2016. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q1 2017 was $26.13/boe compared to $25.43/boe for the same period in 2016.

Current Tax

Current tax for Q1 2017 was an expense of $1.1 million compared to $nil for the same period in 2016. The current tax in Q1 2017 represents a preliminary estimate of taxes incurred primarily for the Statoil funding on the sale of the West Thrace lands. Future drilling expenditures in 2017 will provide a significant reduction to this temporary current tax.

Deferred Tax

Deferred tax for Q1 2017 was a recovery of $2.5 million compared to an expense of $0.3 million for the same period in 2016. 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. During Q1 2017, the Company recorded a current tax expense primarily for the Statoil funding on the sale of the West Thrace lands but 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. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in net earnings.

The currency translation adjustment for Q1 2017 was a loss of $1.7 million compared to a loss of $2.0 million for the same period in 2016 reflecting the fluctuation in the value of the TL compared to the Canadian Dollar in the respective periods.

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

Business Combination

The acquisition of TBNG has been 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	$	27,078

Purchase Price Equation		
Cash	$	5,628
Restricted cash		3,393
Accounts receivable		3,532
Prepaid and deposits		437
Other assets		78
Exploration and evaluation		5,938
Property, plant and equipment		29,280
Accounts payable and accrued liabilities		(9,879)
Deferred tax liability		(3,124)
Decommissioning obligations		(8,205)
	$	27,078

Net cash outflow is $21,450, which is the cash price paid ($27,078) less cash received ($5,628). TBNG's identifiable assets and liabilities have been measured at their individual fair values on the date of acquisition. Determinations of fair value often require management to make assumptions and estimates about future events. Valeura has determined the fair value of assets acquired and liabilities assumed as at the date of acquisition. Valeura has determined that book value equals fair value for the following captions: Cash, Restricted Cash, Accounts Receivable, Prepaid Expenses and Deposits, Other Assets, Accounts Payable and Accrued Liabilities. The fair value of Capital Assets was determined based on internal reserve evaluation. Deferred taxes was determined by applying the statutory tax rate to the Capital Asset fair value less available tax pools. The fair value of decommissioning obligations was determined based on Valeura's IFRS accounting policies for measuring decommissioning obligations. The purchase price allocation is preliminary and is subject to change based on finalization of estimates.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
	March 31, 2017	**March 31, 2016**
Geological and geophysical	**$ 406**	$ 557
Drilling & completions	**1,107**	1,309
Workovers & recompletions	**344**	66
Equipping, facilities & other	**75**	772
Total exploration and development capital program	**1,932**	2,704
Acquisition	**21,450**	-
Dispositions	**(22,315)**	-
Total net capital	**$ 1,067**	$ 2,704

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

The Company's capital spending for Q1 2017 before acquisitions and dispositions was $1.9 million, including $0.4 million for geological and geophysical operations, $1.1 million for drilling and completions and $0.3 million for workovers and recompletions. The Company spent $21.5 million on the TBNG Acquisition and received a combined $22.3 million on the West Thrace Deep Rights Sale and the Banarli Farm-in proceeds for a total net capital spent during Q1 2017 of $1.1 million.

During Q1 2017, the Company drilled one well, Dogu Atakoy-3, on the TBNG JV lands (Valeura 81.5% working interest). The well was drilled and cased to a depth of 1,303 metres and is currently on-stream. The Dogu Atakoy-3 well satisfies the first of two commitment wells in 2017 under the licence terms on the West Thrace lands.

The Company's capital program for 2017 will be ramped up in Q2 2017. The program will start with two wells on the South Thrace lands (Valeura 81.5% working interest). Spud of the first deep Statoil farm-in well, Yamalik-1, on the Banarli licences is imminent. Under the Banarli Farm-in agreement, Statoil will fund a minimum of US$10 to million drill, complete and test the well. In 2017, Statoil will also fund up to US$10 million for new 3D seismic acquisition and processing. The seismic program is expected to commence in Q3 2017 and cover an area of up to 500 square kilometres over much of the Banarli licences and a large portion of the West Thrace lands. The total net capital expenditure program for 2017 is anticipated to be $15 to $16 million, including the drilling of up to seven shallow gas wells, and funded out of the existing working capital and funds flow from operations.

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2017	**March 31, 2016**
Opening cash position	**$ 1,987**	$ 6,973
Inflow of funds		
Share issuance – net of share issuance costs	**10,110**	-
West Thrace Deep Rights Sale	**14,868**	-
Statoil Farm-in Proceeds	**7,447**	-
Changes in working capital and foreign exchange on cash	**1,009**	-
Funds from operations	**-**	1,969
	33,434	1,969
Outflow of funds		
Capital expenditures	**(1,932)**	(2,704)
Decommissioning costs incurred	**(3)**	-
TBNG Acquisition	**(21,450)**	-
Restricted cash	**(3,393)**	-
Changes in working capital and foreign exchange on cash	**-**	(2,512)
Funds used in operations	**(2,883)**	-
	(29,661)	(5,216)
Closing cash position	**$ 5,760**	$ 3,726

Capital Funding and Resources

As at March 31, 2017, Valeura's working capital[7] balance was $7.5 million including cash of $5.8 million. Valeura's 2017 opening cash position was $2.0 million. In Q1 2017, the Company utilized this opening cash balance plus $10.1 million from the equity financing (net of share issuance costs), $14.9 million from the West Thrace Deep Rights Sale and $7.4 million from the Statoil Farm-in to fund the TBNG Acquisition ($27.1 million less $5.6 million of cash in TBNG) and an exploration and development capital program of $1.9 million.

Financial Capacity

As at March 31, 2017 the Company's working capital[7] surplus was $7.5 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 on the TBNG JV lands and Banarli Licenses.

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 (CAD$7.4 million) for back costs for the Banarli farm-in and US$12.0 million (CAD$14.9 million) in proceeds on the West Thrace Deep Rights Sale for a total of US$18 million (CAD$22.3 million). Combined with the Offering net proceeds of $10.1 million, a total of approximately $32.4 million of funds has been received to date with an additional US$3.0 million (CAD$4.2 million) expected upon closing the Subsequent West Thrace Deep Rights Sale. Following the payment of US$20.7 million (CAD$27.1 million) for the TBNG Acquisition and targeted funds flow from operations in excess of $6.0 million for the remainder of 2017, Valeura has sufficient working capital and expected funds flow from operations to fund the target capital expenditure program in 2017 of $15 to $16 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 net 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 shallow gas drilling program on the TBNG JV lands and Banarli licences. 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

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

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

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.

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 March 31, 2017, the Company has letters of credit totaling US$0.3 million issued and outstanding (March 31, 2016 – US$nil). 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.

Related Party Transactions

Valeura paid $50,000 to an entity controlled by one of the members of Valeura's board of directors, for financing arrangement fees related to a potential bridge loan to complete the financing of the TBNG acquisition in the event of delayed Turkish government approvals. This financing proved unnecessary and the TBNG Acquisition closed on February 24, 2017. This fee is included in transaction costs for the three months ending March 31, 2017.

Selected Quarterly Information

	Three months ended			
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Total daily production (boe/d)	807	795	680	933
Average wellhead price ($/boe)	$ 42.49	$ 47.97	$ 56.10	$ 56.62
Petroleum and natural gas sales	3,088	3,508	3,510	4,809
Funds flow from (used in) operations	(2,883)	915	1,066	2,098
Per share, basic and diluted	(0.04)	0.02	0.02	0.04
Net income (loss)	(2,001)	(3,189)	(1,263)	(642)
Per share, basic and diluted	$ (0.03)	$ (0.06)	$ (0.02)	$ (0.01)
	Three months ended			
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Total daily production (boe/d)	792	809	794	1,045
Average wellhead price ($/boe)	$ 60.09	$ 59.45	$ 58.98	$ 59.35
Petroleum and natural gas sales	4,328	4,425	4,309	5,642
Funds flow from operations	1,969	1,600	1,949	2,963
Per share, basic and diluted	0.03	0.03	0.03	0.05
Net income (loss)	(992)	287	(169)	(787)
Per share, basic and diluted	$ (0.02)	$ 0.01	$ -	$ (0.01)

Significant factors that have impacted the Company's results during the above periods include:

- Revenue is directly impacted by the Company's ability to offset natural production declines with production additions from an on-going capital expenditure program.

- Valeura has benefited from relatively high natural gas prices and netbacks in Turkey compared to North America, although the weakening of the TL in 2016 and Q1 2017 and a reduction of the BOTAS benchmark price on October 1, 2016 has reduced wellhead price realizations compared to 2015.
- With its revenues in TL, capital expenditures primarily in United States Dollars and reporting currency in Canadian Dollars, Valeura has a high level of foreign exchange and currency translation exposure.

Commitments and Contractual Obligations

On August 1, 2016 the Company renegotiated its existing sublease that was originally signed on June 15, 2015. The term of this sublease runs through January 30, 2019. The Company has the option to terminate the sublease agreement after 18 months. The remaining amount committed under this renegotiated sublease is approximately $0.6 million including an estimate for operating costs. At March 31, 2017 the remaining commitment of $0.6 million will be discharged in the following years: 2017 – $0.3 million, 2018 – $0.3 million, 2019 – $nominal.

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, 2016 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, 2017 and ending on March 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2017 other than those previously disclosed under commitments.

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

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.

All risk factors have not materially changed from December 31, 2016. The reader is referred to Valeura’s December 31, 2016 audited consolidated financial statements, MD&A and 2016 AIF for a description of these risks.

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	
	March 31, 2017	**March 31, 2016**
Cash provided by operating activities	**$ 441**	$ 1,178
Decommissioning costs incurred	**3**	-
Change in non-cash working capital	**(3,327)**	791
Funds flow from (used in) operations	**$ (2,883)**	$ 1,969

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 net capital expenditures and net sales in 2017; operational activities and drilling plans on the Banarli Licences and TBNG JV lands; 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 one additional shallow well 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 and April 2017 constitutional referendum 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 May 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 contemplated 2017 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.