



Cappadocia, Turkey

**Condensed Interim Consolidated Financial Statements (unaudited)
as at September 30, 2017 and for the three and nine months ended September, 2017 and 2016**

Condensed Interim Consolidated Statements of Financial Position

(thousands of Canadian Dollars, unaudited)	September 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash	\$ 2,968	\$ 1,987
Accounts receivable	12,768	4,601
Prepaid expenses and deposits	1,583	1,465
Inventory	972	-
Assets held for sale <i>(note 4)</i>	-	16,635
	18,291	24,688
License Deposit <i>(note 5)</i>	172	922
Restricted Cash <i>(note 5)</i>	3,396	-
Exploration and evaluation assets <i>(note 6)</i>	11,614	14,258
Property, plant and equipment <i>(note 7)</i>	62,509	36,022
	\$ 95,982	\$ 75,890
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 12,833	\$ 4,267
Decommissioning obligations <i>(note 8)</i>	20,082	8,132
Deferred taxes	5,080	4,885
Shareholders' Equity		
Share capital <i>(note 9)</i>	146,694	136,586
Contributed surplus	19,706	19,343
Accumulated other comprehensive loss	(29,816)	(26,164)
Deficit	(78,597)	(71,159)
	57,987	58,606
	\$ 95,982	\$ 75,890

See accompanying notes to the condensed interim consolidated financial statements

See Liquidity *(note 12)*

See Commitments *(note 14)*

**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2017 and 2016**

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(thousands of Canadian Dollars, except share and per share amounts, unaudited)				
Revenue				
Petroleum and natural gas sales	\$ 3,970	\$ 3,510	\$ 10,822	\$ 12,647
Royalties	(530)	(453)	(1,456)	(1,658)
Other Income	338	206	1,049	662
	3,778	3,263	10,415	11,651
Expenses and other items				
Production	1,306	636	3,249	1,612
General and administrative	909	969	3,905	4,068
Transaction Costs	194	503	1,160	503
Accretion on decommissioning liabilities	487	231	1,292	680
Foreign exchange loss	1,136	469	2,356	1,397
Share-based compensation	138	110	330	279
Exploration and Evaluation (<i>note 6</i>)	664	-	664	-
Depletion and depreciation (<i>note 7</i>)	2,352	1,632	6,515	5,576
	7,186	4,550	19,471	14,115
Loss for the period before income taxes	(3,408)	(1,287)	(9,056)	(2,464)
Income taxes				
Current tax expense (recovery)	(119)	-	746	-
Deferred tax expense (recovery)	1,622	(24)	(2,364)	433
Net loss	(4,911)	(1,263)	(7,438)	(2,897)
Other comprehensive loss				
Currency translation adjustments	(2,919)	(1,467)	(3,652)	(4,868)
Comprehensive loss	(7,830)	(2,730)	(11,090)	(7,765)
Net loss per share				
Basic and diluted (<i>note 9(b)</i>)	\$ (0.07)	\$ (0.02)	\$ (0.11)	\$ (0.05)
Weighted average number of shares outstanding (thousands)	73,148	58,506	70,201	58,164

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2017 and 2016

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(thousands of Canadian Dollars, unaudited)				
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	\$ (4,911)	\$ (1,263)	\$ (7,438)	\$ (2,897)
Depletion and depreciation	2,352	1,632	6,515	5,576
Exploration and Evaluation Expense (note 6)	664	-	664	-
Share-based compensation	138	110	330	279
Accretion on decommissioning liabilities (note 8)	487	231	1,292	680
Unrealized foreign exchange loss (gain)	813	315	242	997
Transactions costs	-	65	-	65
Deferred tax expense (recovery)	1,622	(24)	(2,364)	433
Decommissioning costs incurred	-	-	(14)	-
Change in non-cash working capital (note 11)	(4,108)	450	(2,857)	504
Cash provided by (used in) operating activities	(2,943)	1,516	(3,630)	5,637
Financing activities:				
Share issuance	-	-	10,972	-
Share issuance costs	-	-	(864)	-
Proceeds from stock option exercises	-	-	-	437
Cash provided by financing activities	-	-	10,108	437
Investing activities:				
TBNG Acquisition cash purchase price (note 3)	-	-	(21,450)	-
West Thrace Deep Rights Sale (note 4)	-	-	18,841	-
Statoil Farm-in proceeds (note 6)	-	-	7,447	-
Exploration and evaluation expenditures (note 6)	(4,247)	(3,061)	(6,735)	(8,941)
Property and equipment expenditures (note 7)	(745)	(19)	(4,200)	(58)
Change in restricted cash	204	-	(3,396)	-
Change in non-cash working capital (note 11)	1,772	(544)	3,727	(1,328)
Cash provided by (used in) investing activities	(3,016)	(3,624)	(5,766)	(10,327)
Foreign exchange gain (loss) on cash held in foreign currencies	(976)	(167)	269	(384)
Net change in cash	(6,935)	(2,275)	981	(4,637)
Cash, beginning of period	9,903	4,611	1,987	6,973
Cash, end of period	\$ 2,968	\$ 2,336	\$ 2,968	\$ 2,336



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three and nine months ended September 30, 2017 and 2016

(thousands of Canadian Dollars and thousands of shares, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2017	58,519	\$ 136,586	\$ -	\$ 19,343	\$ (71,159)	\$ (26,164)	\$ 58,606
Net loss for the period	-	-	-	-	(7,438)	-	(7,438)
Shares issued	14,629	10,972	-	-	-	-	10,972
Share Issuance Costs		(864)					(864)
Currency translation adjustments	-	-	-	-	-	(3,652)	(3,652)
Share-based compensation	-	-	-	363	-	-	363
September 30, 2017	73,148	\$ 146,694	\$ -	\$ 19,706	\$ (78,597)	\$ (29,816)	\$ 57,987

(thousands of Canadian Dollars and shares or warrants, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2016	57,906	\$ 135,778	\$ 5,971	\$ 13,238	\$ (65,073)	\$ (14,653)	\$ 75,261
Net loss for the period	-	-	-	-	(2,897)	-	(2,897)
Warrants (expired)	-	-	(5,971)	5,971	-	-	-
Options exercised	547	743	-	(306)	-	-	437
Shares issues for services	66	65	-	-	-	-	65
Currency translation adjustments	-	-	-	-	-	(4,868)	(4,868)
Share-based compensation	-	-	-	334	-	-	334
September 30, 2016	58,519	\$ 136,586	\$ -	\$ 19,237	\$ (67,970)	\$ (19,521)	\$ 68,332

See accompanying notes to the condensed interim consolidated financial statements

1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands, British Virgin Islands and Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. Valeura's head office address is 1200, 202 – 6 Avenue SW, Calgary, AB.

On October 13, 2016, the Company entered into a share purchase agreement to acquire 100 percent of the shares of Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") (the "TBNG Acquisition"). On February 24, 2017, the Company's wholly-owned affiliate, Valeura Energy (Netherlands) B.V ("VENBV") completed the TBNG Acquisition for a cash payment of \$27.1 million (US\$20.7 million). The Company's participating interest in the shallow rights on the TBNG JV Lands has increased to 81.5% from the 40% previously held and Valeura became the operator.

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") and 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 14,629,000 subscription receipts and gross proceeds of approximately \$11 million were released from escrow. Valeura used the net proceeds to partially fund the TBNG Acquisition and to a ramp-up the shallow gas drilling program on the TBNG JV lands and Banarli licences in 2017.

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 licences and the three production leases (the "West Thrace lands"), for cash consideration of \$16.64 million (US\$12 million) which was received in January 2017. These assets were included in Assets held for sale in the financial statements for Valeura as at December 31, 2016.

Following closing the West Thrace Deep Rights Sale and the TBNG Acquisition, TBNG 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 \$3.9 million (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. On June 22, 2017 the Subsequent West Thrace Deep Rights Sale closed upon receiving Turkish government approval for the associated licence interest transfers. Valeura retains 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.

2. Basis of Preparation

(a) Statement of compliance

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 audited consolidated financial statements for the year ended December 31, 2016, with the exception as noted below 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 attached 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.

Notes to the Condensed Interim Consolidated Financial Statements
Three months and nine months ended September 30, 2017 and 2016
(thousands of Canadian Dollars, except share and per share amounts, unaudited)

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. The use of estimates and judgements is also consistent with the December 31, 2016 financial statements.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2017.

(b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2016 audited consolidated financial statements.

The Company's unaudited condensed interim consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in thousands of Canadian Dollars, unless otherwise stated.

(c) Functional and presentation currency

The unaudited condensed interim consolidated financial statements are presented in Canadian Dollars which is Valeura's reporting currency. Valeura's foreign subsidiaries transact in currencies other than the Canadian Dollar and have a Turkish Lira functional currency. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the 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 Other Comprehensive Income or loss ("OCI") and are held within Accumulated Other Comprehensive Income or loss ("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.

(d) Recent accounting standards and interpretations

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 and reviewing underlying revenue contracts with customers to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements including enhanced disclosures of disaggregation of revenue. Valeura plans to adopt IFRS 15 on a retrospective basis on January 1, 2018.

Notes to the Condensed Interim Consolidated Financial Statements
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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.

(e) Turkish Operational Update

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. As of the date hereof, this state of emergency remains in place. 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 Turkish Lira value against the Canadian Dollar. Further developments during the third quarter of 2017, including the detention of a US embassy worker, have destabilized the Turkish Lira value again. 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 based on information available up to the date these condensed interim consolidated financial statements were approved by the Board of Directors. The situation in Turkey remains uncertain and significant changes could occur which could materially impact the assumptions and estimates made in these condensed interim consolidated financial statements. Changes in assumptions are recognized in the financial statements prospectively.

3. Business Combination

On October 13, 2016, the Company entered into a share purchase agreement to acquire 100 percent of the shares of TBNG (the "TBNG Acquisition"). On February 24, 2017, VENBV completed the TBNG Acquisition for a cash payment of US\$20.7 million (CAD\$27.1 million). The Company's participating interest in the shallow rights on the TBNG JV Lands increased to 81.5 percent and Valeura became the operator.

The acquisition of TBNG has been accounted for as a business combination under IFRS 3. The 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
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Purchase Price Equation

Cash	\$	5,628
Restricted Cash		3,395
Accounts receivable		3,582
Inventory		833
Prepays and deposits		287
Exploration and evaluation assets		6,248
Property, plant and equipment		28,002
Accounts payable and accrued liabilities		(9,773)
Deferred tax liability		(2,919)
Decommissioning obligations		(8,205)
	\$	27,078

Net cash outflow is \$21,450, which represents 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 Property, plant and equipment and Exploration and Evaluation assets (together "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 equation was finalized in Q3 2017.

4. Asset Held for Sale

On October 13, 2016, CRBV entered into a sale and purchase agreement ("the Deep Rights Sale Agreement") with Statoil to sell the Company's 40 percent participating interest in the deep formations below approximately 2,500 metres depth on the West Thrace lands for cash consideration of US\$12 million (CAD\$14.9 million) (the "West Thrace Deep Rights Sale"). On January 6, 2017 the Company closed this West Thrace Deep Rights Sale. This resulted in \$16.6 million being removed from assets held for sale at March 31, 2017, including foreign exchange effects.

Following closing the West Thrace Deep Rights Sale and the TBNG Acquisition, TBNG 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. This sale closed on June 22, 2017 upon receipt of Turkish government approval for the associated licence interest transfers for cash consideration of US\$3.0 million (CAD\$ 3.9 million) (the "Subsequent West Thrace Deep Rights Sale"). This resulted in \$4.2 million being removed from assets held for sale at June 30, 2017 including foreign exchange effects. 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 retains 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.

Notes to the Condensed Interim Consolidated Financial Statements
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(thousands of Canadian Dollars, except share and per share amounts, unaudited)

5. Restricted Cash and Licence Deposits

The Company has restricted cash in the amount of \$3.4 million (2016 - \$0) that is securing licence deposits with the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA"), and a further \$0.2 million (2016 - \$1.0 million) on deposit with the GDPA. This restricted cash and deposit is security for decommissioning or abandonment obligations and ongoing work programs on the Company's Turkish licences. These deposits and restricted cash equal the amount to satisfy the underlying commitments with the GDPA and there are no other outstanding commitments. As the expected abandonment date and work programs for these assets is more than one year from September 30, 2017, this restricted cash and deposit have been classified as non-current in the Company's financial statements.

6. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2016	\$ 14,258
TBNG Acquisition additions (<i>note 3</i>)	6,248
Banarli Farm-in Back Costs	(7,447)
Additions	6,735
Transfers to property, plant and equipment ("PP&E") (<i>note 7</i>)	(1,536)
Capitalized share-based compensation	23
Transfer to Assets Held for Sale (<i>note 4</i>)	(4,160)
Exploration and Evaluation Expense	(664)
Effects of movements in exchange rates	(1,843)
Balance, September 30, 2017	\$ 11,614

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. Costs incurred on E&E drilling remain part of E&E until evaluation of drilling results concludes and determination of any reserves can be completed. E&E expense consists of exploration projects that are deemed to have a lower fair value when compared to book value. E&E expense for the 3 and 9 months ended September 30, 2017 was \$0.7 million (2016 – nil) and was comprised of one shallow gas dry hole.

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 (\$7.4 million) for up-front payments as a contribution to back costs incurred on the Banarli licences.

In circumstances where the Company has entered into farm-in arrangements whereby the farm-in partner ("partner") will earn a working interest on certain properties through payment of a pre-determined portion of the costs of exploration or development activities, Valeura recognizes a disposal of the partner's working interest once the commitment has been met and the difference between the proceeds received and the carrying amount of the asset are recognized as a gain or loss in the Consolidated Statements of Loss and Comprehensive Loss for Property, Plant and Equipment assets and as a reduction of Exploration and Evaluation Assets for instances where the farm in is on undeveloped land. Under this IFRS accounting policy, the entire proceeds of the up-front payments under the Banarli Farm-in were accounted for as a reduction of Exploration and Evaluation Assets.

7. Property, Plant and Equipment

Cost	Total
Balance, December 31, 2016	\$ 77,704
TBNG Acquisition additions (<i>note 3</i>)	28,002
Additions	4,201
Change in decommissioning liabilities (<i>note 8</i>)	3,718
Transfers from exploration and evaluation assets (<i>note 6</i>)	1,536
Effects of movements in exchange rates	(8,190)
Balance, September 30, 2017	\$ 106,971
Accumulated depletion and depreciation	Total
Balance, December 31, 2016	\$ 41,682
Depletion and depreciation expense	6,515
Effects of movements in exchange rates	(3,735)
Balance, September 30, 2017	\$ 44,462
Net book value	Total
Balance, December 31, 2016	\$ 36,022
Balance, September 30, 2017	\$ 62,509

(a) Impairment assessment

IFRS requires an impairment test to assess the recoverable value of PP&E within each Cash Generating Unit (“CGU” or CGUs”) upon initial adoption and, subsequently whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell.

As at September 30, 2017, the Company conducted an assessment of impairment triggers for the Company’s CGUs Based on both internal and external factors. The triggers assessed included but were not limited to market capitalization compared to net assets, any changes to year-end commodity price forecasts including foreign currency impacts, and the Company’s drilling success during the quarter. After assessing these impairment triggers the Company concluded that there were no indicators of impairment on its PP&E assets.

(b) Contingencies

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

(c) Depletion - future development costs

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of \$136.6 million (December 31, 2016 – \$83.2 million) associated with development of the Company’s proved plus probable reserves.

The ultimate recovery of property, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

8. Decommissioning Obligations

	Total
Balance, December 31, 2016	\$ 8,132
Obligations incurred	122
Obligations settled	(14)
Change in estimates	3,591
Accretion of decommissioning obligations	1,292
TBNG Acquisition	8,205
Effects of movements in exchange rates	(1,246)
Balance, September 30, 2017	\$ 20,082

The change in estimates of \$3.5 million is a result of a change in the inflation rate to 10.9% at September 30, 2017 (9% at December 31, 2016) and a change in the foreign exchange rate from USD to Turkish Lira to 3.51 (3.52 at December 31, 2016).

9. Share Capital

(a) Issued

	Number of Shares	Amount
Common shares		
Balance, December 31, 2016	58,519,321	\$ 136,586
Shares issued pursuant to equity financing, net of share issue costs	14,629,000	10,108
Balance, September 30, 2017	73,148,321	\$ 146,694

(b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and nine months ended September 30, 2017 are 73,148,321 and 70,201,086, respectively (September 30, 2016 – 58,506,306 and 58,164,256, respectively). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

(c) Stock options

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years.

The number and weighted average exercise prices of share options are as follows:

	Number of Options	Weighted average exercise price
Balance outstanding, December 31, 2016	4,914,500	\$ 0.72
Granted	1,750,000	0.74
Cancelled/Forfeited	(294,000)	0.73
Balance outstanding, September 30, 2017	6,370,500	0.73
Exercisable at September 30, 2017	3,707,324	\$ 0.74

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(thousands of Canadian Dollars, except share and per share amounts, unaudited)

The following table summarizes information about the stock options outstanding and exercisable at September 30, 2017:

Exercise prices	Outstanding at September 30, 2017	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2017	Weighted average exercise price
\$0.57 - \$0.61	1,569,500	4.4	\$ 0.57	1,046,330	\$ 0.57
\$0.62 - \$0.74	2,270,500	4.8	0.68	1,267,166	0.64
\$0.75 - \$1.00	2,530,500	4.4	0.87	1,393,828	0.97
	6,370,500	4.8	\$ 0.73	3,707,324	\$ 0.74

The fair value, at the grant date during the year, of the stock options issued was estimated using the Black-Scholes model with the following weighted average inputs:

Assumptions	September 30, 2017	December 31, 2016
Risk free interest rate (%)	1.0	0.7
Expected life (years)	4.5	4.5
Expected volatility (%)	77.4	80.7
Forfeiture rate (%)	3.7	1.6
Weighted average fair value per option	\$ 0.45	\$ 0.46

10. 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 September 30, 2017, the Company has issued letters of credit totaling US\$0.04 million (September 30, 2016 – 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.

11. Supplemental Cash Flow Information

	Three Months ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Change in non-cash working capital:				
Accounts receivable	\$ (5,103)	\$ 1,781	\$ (8,166)	\$ 692
Prepaid expenses and deposits	1,015	(1,064)	632	53
Inventory	(138)	-	(138)	-
Accounts payable and accrued liabilities	1,296	(927)	8,566	(1,711)
TBNG Acquisition	8	-	(2,434)	-
Movements in exchange rates	586	116	2,410	142
	(2,336)	(94)	870	(824)

The change in non-cash working capital has been allocated to the following activities:

Operating	(4,108)	450	(2,857)	504
Investing	1,772	(544)	3,727	(1,328)
	\$ (2,336)	\$ (94)	\$ 870	\$ (824)

12. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk is as follows:

	September 30, 2017	December 31, 2016
Joint Venture Receivable from Statoil	\$ 8,017	-
Joint Venture Receivable from other partners	980	-
Revenue Receivable from customers	2,875	4,601
VAT Receivable	896	-
Trade and other receivables	\$ 12,768	\$ 4,601

Trade and other receivables:

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures.

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can cash call for major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Foreign currency exchange rate risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes

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(thousands of Canadian Dollars, except share and per share amounts, unaudited)

in foreign exchange rates. The Company's petroleum and natural gas sales are conducted in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira (TL) to Canadian Dollar (CAD) and United States Dollar (USD) exchange rates. A decrease in the value of the Turkish Lira against the Canadian or United States Dollars will result in a decrease in revenues, royalty expense and operating costs. Correspondingly, an increase in the value of the Turkish Lira against the Canadian and United States Dollars will result in an increase in revenues, royalty expense and operating costs. Changes in the value of the Turkish Lira against the Canadian and United States Dollars could also impact reserve values.

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in US Dollars. Material changes in the value of the US Dollar against the Turkish Lira or Canadian Dollar will impact the Company's capital costs.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three and nine months ended September 30, 2017:

	Petroleum and natural gas revenues	Royalties	Production costs
+/- 1 percent change in realized TL/CAD exchange rate			
Three months ended September 30, 2017	\$ 42	\$ 5	\$ 12
Nine months ended September 30, 2017	\$ 115	\$ 14	\$ 32

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in US Dollars. Material changes in the value of the US Dollar against the Turkish Lira or Canadian Dollar will impact the Company's capital costs.

Changes to the TL/USD exchange rate, which are impacted by the TL/CAD exchange rate upon conversion to the Company's Canadian Dollar presentation currency, would have had the following impact on capital expenditures for the three and nine months ended September 30, 2017:

	Capital expenditures
+/- 1 percent change in realized TL/USD exchange rate, upon conversion to presentation currency	
Three months ended September 30, 2017	\$ 33
Nine months ended September 30, 2017	\$ 46

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it has no debt.

Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian Dollar and Turkish Lira, the Canadian Dollar and United States Dollar, global economic events and Turkish government policies.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash which is used to finance all operating and capital expenditures.

Capital management:

The Company's objective when managing capital 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 Company's capital expenditure includes 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 currently subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur in 2018, upon drilling & completion success at Yamalik 1, if Statoil elects to complete Phases 2 and 3 under the Banarli Farm-in and thereby earns a 50 percent working interest in the deep rights at Banarli. At that point, Statoil may exercise its option under the Banarli Farm-in to take operatorship of the deep rights and propose a more significant drilling program including a pilot project, which would require the Company to contribute its 50 percent participating interest share of these costs. Such a program could result in a significant capital commitment for which the Company will be required to assess alternatives including the availability of equity and debt capital to fund the program.

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 licenses due to failure to meet drilling deadlines or to be in default under joint venture agreements.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. In the future, if the Company establishes and borrows on a bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

13. 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 nine months ending September 30, 2017.

14. Commitment

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 \$0.43 million including an estimate for operating costs. At September 30, 2017 the remaining commitment of \$0.36 million will be discharged in the following years: 2017 – \$0.08 million, 2018 – \$0.28 million, 2019 – \$nominal.