valeura energy inc.

Condensed Interim Consolidated Financial Statements (unaudited)

as at March 31, 2015 and for the three months ended March 31, 2015 and 2014

.

valeura energy inc.

Condensed Interim Consolidated Statements of Financial Position

(thousands of Canadian Dollars, unaudited)	**March 31, 2015**	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	**$ 8,082**	$ 5,928
Accounts receivable	**6,334**	7,917
Prepaid expenses and deposits	**533**	277
	14,949	14,122
Non-Current Assets		
Deposits	**623**	645
Exploration and evaluation assets *(note 4)*	**29,984**	30,488
Property, plant and equipment *(note 5)*	**51,536**	53,910
	$ 97,092	$ 99,165
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,661**	$ 4,078
Decommissioning obligations	**12,205**	11,010
Deferred taxes	**6,033**	6,114
Shareholders' Equity		
Share capital	**135,778**	135,778
Warrants	**5,971**	5,971
Contributed surplus	**12,659**	12,452
Accumulated other comprehensive loss	**(13,811)**	(11,727)
Deficit	**(64,404)**	(64,511)
	76,193	77,963
	$ 97,092	$ 99,165

See accompanying notes to the condensed interim consolidated financial statements

See Commitments *(note 8)*

valeura energy inc.

Condensed Interim Consolidated Statements of Income and Comprehensive Income (Loss)
For the three months ended March 31, 2015 and 2014

(thousands of Canadian Dollars, except share and per share amounts, unaudited)	**March 31, 2015**	March 31, 2014
Revenue		
Petroleum and natural gas sales	**$ 7,167**	$ 6,650
Royalties	**(969)**	(899)
Other income	**122**	125
	6,320	5,876
Expenses and other items		
Production	**742**	611
General and administrative	**1,647**	1,505
Financing	**221**	151
Foreign exchange loss (gain)	**497**	(73)
Share-based compensation	**170**	143
Exploration and evaluation *(note 4)*	**-**	40
Depletion and depreciation *(note 5)*	**2,807**	2,854
	6,084	5,231
Income from continuing operations before income taxes	**236**	645
Income taxes		
Deferred tax expense	**129**	369
Income from continuing operations	**107**	276
Discontinued operations		
Income from discontinued operations *(note 3)*	**-**	54
Net income	**107**	330
Other comprehensive income (loss)		
Currency translation adjustments	**(2,084)**	212
Comprehensive income (loss)	**(1,977)**	542
Net income per share		
Basic and diluted – continuing operations	**$ 0.00**	$ 0.01
Basic and diluted – discontinued operations	**$ 0.00**	$ 0.00
Basic and diluted – total	**$ 0.00**	$ 0.01
Weighted-average number of shares outstanding	**57,906,135**	57,906,135

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2015 and 2014

(thousands of Canadian Dollars, except share and per share amounts, unaudited)	**March 31, 2015**	March 31, 2014
Cash was provided by (used in):		
Operating activities:		
Net income for the period	**$ 107**	$ 330
Income from discontinued operations	**-**	(54)
Depletion and depreciation	**2,807**	2,854
Exploration and evaluation expense *(note 4)*	**-**	40
Share-based compensation	**170**	143
Financing expenses	**202**	151
Unrealized foreign exchange loss (gain)	**258**	(195)
Deferred tax expense	**129**	369
Decommissioning costs incurred	**(19)**	(15)
Change in non-cash working capital	**404**	(3,540)
Cash provided by operating activities – continuing operations	**4,058**	83
Cash provided by operating activities – discontinued operations	**-**	106
Cash provided by operating activities	**4,058**	189
Investing activities:		
Property and equipment expenditures *(note 5)*	**(158)**	(1,073)
Exploration and evaluation expenditures *(note 4)*	**(1,277)**	(3,323)
Proceeds on asset disposition	**-**	454
Change in non-cash working capital	**(485)**	2,788
Cash used in investing activities – continuing operations	**(1,920)**	(1,154)
Cash used in investing activities – discontinued operations	**-**	(4)
Cash used in investing activities	**(1,920)**	(1,158)
Foreign exchange gain (loss) on cash held in foreign currencies	**16**	(58)
Net change in cash and cash equivalents	**2,154**	(1,027)
Cash and cash equivalents, beginning of period	**5,928**	6,511
Cash and cash equivalents, end of period	**$ 8,082**	$ 5,484

valeura energy inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2015 and 2014

(thousands of Canadian Dollars, except share amounts, unaudited)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2015	57,906	$ 135,778	$ 5,971	$ 12,452	$ (64,511)	$ (11,727)	$ 77,963
Net income for the period	-	-	-	-	107	-	107
Currency translation adjustments	-	-	-	-	-	(2,084)	(2,084)
Share-based compensation	-	-	-	207	-	-	207
March 31, 2015	**57,906**	**$ 135,778**	**$ 5,971**	**$ 12,659**	**$ (64,404)**	**$ (13,811)**	**$ 76,193**

(thousands of Canadian Dollars, except share amounts, unaudited)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2014	57,906	$ 135,778	$ 5,971	$ 11,743	$ (65,873)	$ (11,638)	$ 75,981
Net income for the period	-	-	-	-	330	-	330
Currency translation adjustments	-	-	-	-	-	212	212
Share-based compensation	-	-	-	171	-	-	171
March 31, 2014	**57,906**	**$ 135,778**	**$ 5,971**	**$ 11,914**	**$ (65,543)**	**$ (11,426)**	**$ 76,694**

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 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.

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, 2014, 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, 2014.

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 unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2015.

(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, 2014 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 balance sheet 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.

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

3. Discontinued Operations

On August 19, 2014, the Company completed the sale of its non-core petroleum and natural gas properties in Canada for proceeds of $0.8 million. Prior to the discontinued operations, Valeura had two reportable segments consisting of Canada and Turkey. Results from the Company's discontinued operations in Canada are summarized as follows:

		Three months ended
	March 31, 2015	March 31, 2014
Petroleum and natural gas revenue	**$ -**	$ 246
Royalties	**-**	(11)
Production expense	**-**	(129)
Funds flow from discontinued operations	**-**	106
Financing expense	**-**	(8)
Depletion	**-**	(44)
Income from discontinued operations	**$ -**	$ 54

4. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2014	$ 30,488
Additions	1,277
Transfers to property, plant and equipment ("PP&E") *(note 5)*	(708)
Capitalized share-based compensation	37
Effects of movements in exchange rates	(1,110)
Balance, March 31, 2015	**$ 29,984**

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. Transfers to E&E expense represent the Company's share of impairment on its E&E assets. An impairment test was completed on E&E transfers to PP&E with no impairment required.

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

5. Property, Plant and Equipment

Cost		Total
Balance, December 31, 2014	$	88,720
Additions		158
Transfers from exploration and evaluation assets *(note 4)*		708
Change in decommissioning obligations		1,390
Effects of movements in exchange rates		(3,037)
Balance, March 31, 2015	**$**	**87,939**

Accumulated depletion and depreciation		Total
Balance, December 31, 2014	$	34,810
Depletion and depreciation expense		2,807
Effects of movements in exchange rates		(1,214)
Balance, March 31, 2015	**$**	**36,403**

Net book value		Total
Balance, December 31, 2014	$	53,910
Balance, March 31, 2015	**$**	**51,536**

(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 March 31, 2015 and 2014, the Company conducted an assessment of impairment triggers for the Company's CGUs. The triggers assessed were market capitalization compared to the carrying value of PP&E assets, any changes to year-end commodity price forecasts, 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 $91.4 million (December 31, 2014 – $84.8 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.

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

6. Share Capital

(a) 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, December 31, 2014	3,174,000	$ 0.82
Granted	2,038,000	0.57
Balance, March 31, 2015	**5,212,000**	**0.72**
Exercisable at March 31, 2015	**1,587,000**	**$ 0.88**

The following table summarizes information about the stock options outstanding at March 31, 2015:

Exercise prices	Outstanding at March 31, 2015	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2015	Weighted average exercise price
$0.57	2,038,000	7.0	$ 0.57	-	$ -
$0.64	1,587,000	6.0	0.64	529,000	0.64
$1.00	1,587,000	5.0	1.00	1,058,000	1.00
	5,212,000	6.1	$ 0.72	1,587,000	$ 0.88

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	**March 31, 2015**	December 31, 2014
Risk free interest rate (%)	**0.8**	1.6
Expected life (years)	**4.5**	4.5
Expected volatility (%)	**85.8**	100.0
Forfeiture rate (%)	**1.3**	5.0
Weighted average fair value of options	**$ 0.35**	$ 0.46

(b) Performance warrants

Valeura had performance warrants outstanding to directors, officers and certain employees of the Company, which expired during the period:

	Number of Performance Warrants	Weighted average exercise price
Balance, December 31, 2014	**2,796,750**	**$ 2.00**
Expired, January 8, 2015	**(2,796,750)**	**2.00**
Balance, March 31, 2015	**-**	**$ -**

7. 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:

	March 31, 2015	December 31, 2014
Trade and other receivables	**$ 6,334**	$ 7,917

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. Receivables from Turkish petroleum and natural gas marketers are normally collected on the 45th day of the month following production. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large 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.

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

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 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 to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three months ended March 31, 2015:

Three months ended March 31, 2015 TL/CAD average exchange rate	Petroleum and natural gas sales	Royalties	Production costs
1 percent weakening of TL/CAD	$ (71)	$ (10)	$ (7)
1 percent strengthening of TL/CAD	$ 72	$ 10	$ 7

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 would have had the following impact on capital expenditures for the three months ended March 31, 2015:

Three months ended March 31, 2015 TL/USD average exchange rate	Capital expenditures
1 percent weakening of TL/USD	$ 10
1 percent strengthening of TL/USD	$ (10)

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, and global economic events that dictate the levels of supply and demand.

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 and strategic acquisitions 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 subject to any externally imposed capital requirements.

The successful future operations of the Company are dependent on the ability of the Company to secure sufficient funds through operations, bank financing, equity offerings or other sources and there are no assurances that such funding will be available when needed. Failure to obtain such funding on a timely basis could cause the Company to reduce capital spending and could lead to the loss of exploration licences due to failure to meet drilling deadlines.

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 flow 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 flow from operations remained constant.

8. Commitments

On October 26, 2012, Valeura entered into a two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.3 million as at March 31, 2015.