valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2015 and 2014

(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 14, 2015 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, 2015 and 2014. 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, 2014 ("2014 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 2014 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, 2014.

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.

During the third quarter of 2014, Valeura sold all of its remaining Canadian petroleum and natural gas properties. As the Company no longer has oil and gas properties in Canada, the previous Canadian segment has been treated as discontinued operations and removed from current and comparative period results throughout this MD&A. All tables, except those expressly described as discontinued operations, contain information from the Company's continuing operations only.

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" (net income or loss for the period adjusted for non-cash items) 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:

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

	Three months ended	
	March 31, 2015	March 31, 2014
Cash provided by operating activities	**$ 4,058**	$ 83
Decommissioning costs incurred	**19**	15
Change in non-cash working capital	**(404)**	3,540
Funds flow from operations	**$ 3,673**	$ 3,638

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 Company's 2015 work program and budget, operational plans (seismic, drilling, fracture stimulating ("fracking" or "frac") and workovers) and capital expenditures on the TBNG JV lands and Banarli Licence; the extent of exploration leads on the Banarli Licence 5104; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; the planned drilling of horizontal and vertical wells, well re-entry fracs and well recompletion workovers and the expected impact thereof; the timing, estimated costs and ability to fund each of the foregoing; and, the plans to attract a joint venture partner to drill the deep, potential basin-centered gas play on the Banarli Licence 5104 and certain joint venture lands in the Thrace Basin.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: the ability of the Company to execute its strategy; the ability of the Company to obtain financing on acceptable terms; future drilling, fracking and re-completion activity on the expected timelines; the anticipated tight gas development program in the Thrace Basin and the ability to finance future development; the ability to meet drilling deadlines and other requirements under licences and leases (including spudding deadlines under the Company's 100 percent owned Licences 5104 and 5147); the ability to attract partners and negotiate farm-out arrangements, in particular on the Banarli Licence 5104 and certain joint venture lands in the Thrace Basin; field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, including stock exchange approvals, both domestically and internationally; continued operations of and approvals forthcoming from the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") in a manner consistent with past conduct; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the ability of the Company to manage water production; results of future seismic programs; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in foreign countries; and the ability of the Company to successfully market its oil and natural gas products. In addition, budgets are based upon the Company's current work programs proposed by partners and associated exploration and development plans and anticipated costs, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of fracking and other specialized oilfield equipment and service providers, changes in the operator's or partners' plans and unexpected delays and changes in market conditions. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

Forward-looking information is based on current expectations, estimates and projections that involve a number of known and unknown risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking information. The material risk factors affecting the Company and its business are similar to those of other companies engaged in the business of exploring for and producing oil and gas in foreign countries. 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: risks associated with the oil and gas industry (e.g. operational risks in exploration, inherent uncertainties in interpreting geological data, and changes in plans with respect to exploration or capital expenditures, the uncertainty of estimates and projections in relation to costs and expenses, and health, safety, and environmental risks); uncertainty regarding the sustainability of initial production rates and decline rates thereafter; uncertainty regarding the availability of drilling rigs and equipment and the ability to address technical drilling challenges and manage water production; uncertainty regarding the state of capital markets and the availability of future financings; the risk of being unable to secure farm-in partners; the risk of being unable to meet drilling deadlines and the requirements under licences and leases (including Licences 5104 and 5147); uncertainty regarding converting exploration licences under the GDPA's new licencing regime; uncertainty regarding the amount of operating cash flow; 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; the risks of increased costs and delays in timing related to protecting the safety and security of Valeura's personnel and property; the risk of commodity and Boru Hatlari ile Petrol Tasima Anonim Sirketi ("BOTAS") pricing and foreign exchange rate fluctuations; the uncertainty associated with negotiating with third parties in countries other than Canada; the risk of partners having different views on work programs and potential disputes among partners; the uncertainty regarding government and other approvals; potential changes in laws and regulations; risks associated with weather delays and natural disasters; and the risk associated with international activity. See Valeura's 2014 AIF filed on SEDAR at www.sedar.com for a detailed discussion of the risk factors.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement.

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

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2015	March 31, 2014
Financial		
Petroleum and natural gas sales	**$ 7,167**	$ 6,650
Net Income	**107**	276
Per share, basic and diluted	**0.00**	0.01
Funds flow from operations[1]	**3,673**	3,638
Per share, basic and diluted	**$ 0.06**	$ 0.06
Production volumes		
Crude oil (bbl/d)	**10**	7
Natural gas (Mcf/d)	**7,273**	7,605
Total (boe/d)	**1,223**	1,274
Sales prices		
Crude oil (per bbl)	**$ 50.19**	$ 88.08
Natural gas (per Mcf)	**10.88**	9.64
Total (per boe)	**65.14**	57.98
Capital expenditures (net)	**1,435**	3,942
Working capital surplus	**12,288**	6,817
Cash and cash equivalents	**$ 8,082**	$ 5,484
Weighted average shares outstanding		
Basic and diluted (thousands)	**57,906**	57,906

Outstanding Share Data

	March 31, 2015
Common shares	57,906,135
Warrants	13,269,217
Stock options	5,212,000
Fully Diluted	76,387,352

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

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 originally included the Middle East and North Africa region, the Mediterranean Basin and South America. 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 Turkey. As at March 31, 2015, the Company held an interest in 21 exploration licences and production leases comprising approximately 0.96 million gross acres (0.42 million net acres) primarily in the Thrace Basin (90.5% of net lands) of northwest Turkey and the Anatolian Basin (9.5% of net lands) of southeast Turkey. The assets in the Thrace Basin include a 40 percent working interest in an established natural gas production and marketing business and a large acreage position of approximately 0.81 million gross acres (0.38 million net acres) with both conventional shallow gas exploration potential and exposure to a potentially significant unconventional tight gas resource play below the existing shallow gas formations. The tight gas play is under delineation and early-stage development after more than four years of activity aimed at de-risking the play. As at March 31, 2015, the assets in the Anatolian Basin included two exploration licences with oil potential.

In May 2013, the Turkish government passed a new petroleum law, which amongst other provisions, included a new licencing regime for the award of future exploration licences and production leases. Voluntary conversion of existing exploration licences to the new regime has been encouraged, where possible, but would require re-alignment of the existing licence boundaries and negotiation with offset licence holders to fit a new international grid system that was also adopted as part of the new law. In 2014, Valeura and its joint venture partners made applications to the GDPA to convert essentially all of its existing exploration licences to new exploration licences or new production leases over part of certain existing exploration licences that were nearing expiry in 2014 or 2015. Progress is being made with the GDPA in this conversion process and several new production leases and reconfigured exploration licences were awarded in the fourth quarter of 2014. There is no certainty that all of the requested conversions can be achieved and timing remains uncertain. The reader is referred to the Company's 2014 AIF for a detailed description of the old and new licencing terms in Turkey.

In a subsequent development in April 2015, the GDPA advised that it expects to convert Valeura's 100 percent owned and operated Banarli exploration licence to two new contiguous exploration licences with slightly larger aggregate area under the new petroleum law. Formal gazetting of the award is expected in late May, at which time the work program requirements over the initial five-year term of the licences will be confirmed.

Turkish Operations

Thrace Basin

Edirne Asset Acquisition

The Company closed its first acquisition in the Thrace Basin with the purchase of natural gas assets from Edirne Enerji Petrol Arama Üretim Ve Ticaret Limited Şirketi ("Edirne") on March 24, 2011 for a total cash payment of approximately $1.9 million. An affiliate of TransAtlantic Petroleum Ltd. ("TransAtlantic") is the operator of the Edirne Licence 3839. Valeura acquired a 35 percent working interest in the lands and producing assets associated with the Edirne Licence.

In the fourth quarter of 2014, the original Edirne exploration licence was converted to three new production leases under the new petroleum law encompassing 49,883 gross acres (17,459 net acres).

Natural gas production from the Edirne production leases is sold domestically to a large wholesale gas marketer through a nine kilometre tie-in to a large diameter pipeline operated by BOTAS, which enters Turkey through Bulgaria and carries Russian gas into the Istanbul area.

TBNG-PTI Asset Acquisition

On June 8, 2011, the Company closed its second acquisition of producing natural gas assets and lands in the Thrace Basin and interests in exploration lands in the Anatolian Basin (Gaziantep area) of southeast Turkey owned by Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Pinnacle Turkey Inc. ("PTI") (the "TBNG JV") (Valeura 40 percent working interest) for $53.7 million (after adjustments for the period from the effective date of October 1, 2010 to June 8, 2011). This acquisition closed contemporaneously with acquisitions made by affiliates of TransAtlantic from the same vendor. All of the TBNG JV lands are operated by TransAtlantic.

This acquisition provided cash flow to the Company from sales of shallow gas production in the Thrace Basin, interests in 624,361 gross acres of onshore and offshore land (220,617 net) as at March 31, 2015, and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The TBNG JV lands currently include nine production leases and five exploration licences, of which two licences are entirely on land and three licences have a portion in the shallow waters (up to 200 metres water depth) of the Sea of Marmara. This includes four new production leases that were granted on part of two existing exploration licences in the fourth quarter of 2014 under the new petroleum law. The residual portions of the existing exploration licences have been retained at this time but are due to expire in November 2015, subject to any additional production lease carve-outs approved by the GDPA.

Natural gas is currently produced from approximately 65 wells (gross) on the TBNG JV lands, all located onshore. Approximately 60 percent of the natural gas produced in Q1 2015 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500 to 1,500 metres. The gas is processed and compressed in owned facilities and is distributed in an owned pipeline network directly to more than 50 commercial and end-user customers. TransAtlantic is responsible for the marketing arrangements on behalf of the joint venture.

Selective opportunities exist to continue to pursue shallow gas exploration and development drilling, well workovers and wellhead compression to mitigate natural declines in existing production. Approximately 3,500 kilometres of legacy 2D seismic is available on the onshore lands in the Thrace Basin and an additional 413 square kilometres of 3D seismic was acquired in the second half of 2011 to support the Company’s exploration and development drilling program for both shallow gas, but more importantly, deeper tight gas targets. An additional 232 square kilometres of 3D seismic was acquired in the fourth quarter of 2013 in the Osmanli area immediately south of Valeura's Banarli Licence.

Valeura believes there is considerable upside potential associated with applying modern technology to exploit deeper tight gas sands, particularly in the Mezardere, Teslimkoy and Kesan formations down to depths of approximately 1,800 to 3,700 metres, depending on the area. Accordingly, the Company has been focusing the majority of its capital program in the Thrace Basin on tight gas exploitation in the past few years. The Company has had an active program of re-entering selected existing medium-depth wells to frac selected sandstone units, as well as drilling and fracking new medium-depth and deep wells as part of a proof-of-concept tight gas exploitation program. The Company completed 55 well re-entry fracs (including 11 multi-stage fracs) and 18 new drill fracs (including 11 multi-stage fracs) during the period from July 1, 2011 to March 31, 2015. Natural gas production from tight gas sands in these fracked wells contributed approximately 40 percent of the natural production from the TBNG JV lands in Q1 2015.

In the third quarter of 2014, Valeura and its partners in the TBNG JV commenced a five-well (gross) conventional natural gas exploration and development program in the Osmanli area on the new 3D seismic acquired in late 2013. The program resulted in three new pool discoveries at the Gurgen-1, Tavanli-1 and Biyikali-2 sidetrack wells and a successful development well at Guney Osmanli-1. The Company also drilled an exploration well at Dogu Osmanli-1 in which the log analysis indicated gas bearing pay in the Mezardere formation only. Valeura elected to case and complete the well as an independent operation (Valeura 100 percent working interest) and continues to evaluate the Mezardere formation as a potential future frac candidate. In December 2014, the Company followed up the Gurgen-1 discovery well with an appraisal well, Gurgen-2, which was successful. In Q1 2015, a second appraisal well, Gurgen-3 was drilled and is on production. As at March 31, 2015, six of the seven wells drilled were on production and contributing to sales from the TBNG JV.

Other Acquisitions and New Licence Awards

On January 16, 2012, Valeura closed the acquisition of a 24 percent non-operated working interest held by Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") in three exploration licences (3998, 3999 and 4187) in the Thrace Basin operated by Merty Energy for consideration of US$1.5 million. The Company participated in the acquisition of 186 kilometres of new 2D seismic on Licence 3999 in the third quarter of 2012 and spudded the Kavacik-1 well on this licence which was dry and abandoned. Valeura and its partners agreed to let all three licences expire under the existing arrangements over the October 2012 to January 2013 period. The Company re-applied for Licence 3999 and 4187 with a 100 percent working interest. In July 2013, Valeura was awarded the Copkoy Licence 5147 on a 100 percent basis (20,668 gross acres), which encompasses the lands in the expired Licence 4187.

On April 8, 2013, the Company announced that it had been awarded the Banarli Licence 5104 on a 100 percent basis. The exploration licence covers an area of 118,598 gross acres (185 square miles) near the centre and deepest part of the Thrace Basin and has 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. In April 2015, the GDPA advised that it expects to convert the Banarli exploration licence to two new contiguous exploration licences with slightly larger aggregate area under the new petroleum law.

In aggregate, the Company held interests in 19 production leases and exploration licences in the Thrace Basin covering an area of 813,510 gross acres (377,343 net) as at March 31, 2015.

Anatolian Basin

Gaziantep

The TBNG JV acquisition described above also included a 26 percent non-operated working interest in lands in the Gaziantep area in the Anatolian Basin. The lands acquired originally included four exploration licences covering an area of 488,070 gross acres (126,898 net). In July 2012, the Company participated in re-entering a small Mardin Group heavy oil discovery at the Alibey-1 well on Licence 4607 and drilling a new horizontal sidetrack of approximately 414 metres in length within the Mardin. In December 2012, part of the horizontal section was completed near the toe of the well, which tested oil. In May 2013, a more extensive completion along the full length of the horizontal lateral was carried out but early production testing yielded only formation water with traces of oil. Further evaluation is underway to assess the merits of a recompletion program to potentially reduce water production from the well.

In October 2013, the Company and its partners relinquished three of the four Gaziantep licences, which were assessed to have limited prospectivity. The remaining Licence 4607 was retained and was subsequently converted to two new exploration licences in the fourth quarter of 2014 under the new petroleum law comprising 152,111 gross acres (39,549 net acres).

Outlook

The Company expects to execute a capital expenditure program in the range of $18 to 20 million (net) in Turkey in 2015, focused on natural gas development in the Thrace Basin, contingent on the level of operating cash flow from the TBNG JV lands. The work program and budget aims to achieve the following key objectives in 2015, with some modification from earlier guidance reflecting an expected delay in the re-start of drilling and a weaker Turkish Lira:

- Offset natural declines and hold volumes approximately level with 2014 on the TBNG JV lands from a work program funded by operating cash flow;
- Pursue the shallow conventional gas play on Valeura's 100 percent owned and operated Banarli licence with new 3D seismic and drill an initial exploration commitment well as early as Q4 2015, contingent on the 3D seismic results and the Company's cash position at the time; and
- Seek a farm-in partner(s) to pursue the deep basin-centered gas play on the TBNG JV lands and Banarli.

The current planned work program on the non-operated TBNG JV lands in 2015 includes up to seven new drill wells (gross), dependent on partner approvals and the timing of the re-start of drilling. A seven well program would represent about a half rig-year of drilling activity. One well (Gurgen-3) was drilled in January and drilling is expected to resume by late June, subject to reaching agreement with partners on target locations, pace and participation levels given the current business environment. The planned program also includes a selective program of tight gas well re-entry fracs and workovers on conventional gas wells. Total capital expenditures in 2015 on the TBNG JV lands are budgeted in the range of $9.0 to 10.0 million (net).

With respect to the program on the Banarli exploration licence, the planned 152 square kilometre 3D seismic program commenced on May 1, 2015 and the initial acquisition phase should be completed in late June. Seismic processing and interpretation is expected to be completed in September to position initial drilling as early as Q4 2015, contingent on the 3D seismic results and the Company's cash position at the time. It is expected that an initial exploration well would target the Osmancik formation and top of the Mezardere formation to a depth of approximately 2,500 metres. The cost to drill, complete and test an initial exploration well at Banarli is estimated at $2.1 million and is included in the 2015 budget. Contingent funds of $1.2 million are also included for a flow line to tie-in the well, contingent on drilling success and the ability to negotiate a transportation and marketing arrangement to tie-in production. Total capital expenditures at Banarli for the shallow gas play are budgeted in the range of $9.0 to 10.0 million, including $5.0 million for the 3D seismic.

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

Results of Operations

	Three months ended	
	March 31, 2015	March 31, 2014
Petroleum and natural gas sales	**$ 7,167**	$ 6,650
Royalties	**(969)**	(899)
Production costs	**(742)**	(611)
Operating netback[1]	**5,456**	5,140
Other income	**122**	125
General and administrative	**(1,647)**	(1,505)
Interest expense	**(19)**	-
Realized foreign exchange gain (loss)	**(239)**	(122)
Funds flow from operations[1]	**3,673**	3,638
Non-cash expenses		
Share based compensation	**(170)**	(143)
Financing costs	**(202)**	(151)
Exploration and evaluation expense	**-**	(40)
Unrealized foreign exchange gain (loss)	**(258)**	195
Depletion and depreciation	**(2,807)**	(2,854)
Deferred tax expense	**(129)**	(369)
Net income	**$ 107**	**$** 276

Sales Volumes

	Three months ended	
	March 31, 2015	March 31, 2014
Crude oil (bbl/d)	**10**	7
Natural gas (Mcf/d)	**7,273**	7,605
Total (boe/d)	**1,223**	1,274

Sales volumes in Q1 2015 decreased to 1,223 boe/d compared to 1,274 boe/d for the same period in 2014 due to natural declines, partially offset by natural gas production from new wells, workovers and fracs in the Thrace Basin.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2015	March 31, 2014
Petroleum and natural gas sales	**$ 65.14**	$ 57.98
Royalties	**(8.81)**	(7.83)
Production costs	**(6.75)**	(5.33)
Operating netback	**$ 49.58**	$ 44.82

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

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

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2015**	March 31, 2014
Natural gas – BOTAS (per Mcf)[1]	**TL 21.93**	TL 20.12
Natural gas – BOTAS (per Mcf)	**$ 11.06**	$ 10.02
Average exchange rate (TL/CAD)	**1.9830**	2.008

	Three months ended	
Average realized prices	**March 31, 2015**	March 31, 2014
Crude oil (per bbl)	**$ 50.19**	$ 88.08
Natural gas (per Mcf)	**$ 10.88**	$ 9.64

The following table shows the percentage change in Valeura's realized prices for Q1 2015 compared to Q1 2014:

Crude oil	(43%)
Natural gas	13%

Natural gas prices remain strong in Turkey. Natural gas prices under sales contracts for all production in the Thrace Basin are linked to the BOTAS benchmark price in Turkish Lira ("TL"). Effective October 1, 2014 the Turkish Lira natural gas benchmark price increased by nine percent. This has resulted in an effective Canadian dollar converted benchmark price of $11.06 per thousand cubic feet ("Mcf") for Q1 2015. Natural gas sales from the TBNG JV lands are under direct sales contracts to industrial buyers in the area. Natural gas sales in the Edirne field are delivered to the BOTAS pipeline and sold to a large wholesale buyer. All natural gas sales contracts for the TBNG JV lands and the Edirne field reflect a negotiated discount to the BOTAS benchmark price. The average realized natural gas price in Turkey for Q1 2015 of $10.88 per Mcf represents a two percent discount to the BOTAS benchmark price.

The Company's Q1 2015 average realized natural gas price in Turkey increased by 13 percent to $10.88 per Mcf from $9.64 per Mcf in Q1 2014 due primarily to the increased BOTAS benchmark price effective October 1, 2014. The natural gas price realized by the Company for the remainder of 2015 may be negatively affected by a devaluation of the Turkish Lira. As at the date of this MD&A, Valeura's realized natural gas price is below $10.00 per Mcf.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2015	March 31, 2014
Crude oil	**$ 47**	$ 54
Natural gas	**7,120**	6,596
Total revenues	**$ 7,167**	$ 6,650

The composition of petroleum and natural gas sales revenues for Q1 2015 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q1 2015 increased in comparison to the same period in 2014 due primarily to a nine percent increase in the BOTAS benchmark price and higher realized natural gas prices in Turkey.

[1] BOTAS owns and operates the national crude oil pipeline grid and the national gas pipeline grid in Turkey. BOTAS regularly posts prices and its Organized Industrial Zones natural gas wholesale tariff is shown herein as a reference price. See the 2014 AIF for further discussion.

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

Royalties

	Three months ended	
	March 31, 2015	March 31, 2014
Royalties	**$ 969**	$ 899
Percentage of revenue	**13.5%**	13.5%

Royalties in Q1 2015 increased in comparison to the same period in 2014 as a result of higher petroleum and Natural gas sales revenues. Revenues are subject to a 12.5 percent government royalty and certain overriding royalties.

Production Costs

	Three months ended	
	March 31, 2015	March 31, 2014
Production costs	**$ 742**	$ 611
$ per boe	**6.75**	5.33

Unit production costs in Q1 2015 increased to $6.75/boe compared to $5.33/boe for the same period in 2014 due primarily to increased union labour costs.

General and Administrative Expenses

	Three months ended	
	March 31, 2015	March 31, 2014
General and administrative expense	**$ 1,926**	$ 1,693
Business development	**15**	64
Total	**1,941**	1,757
Recoveries	**(294)**	(252)
Total general and administrative expenses	**$ 1,647**	$ 1,505

Total general and administrative expense for Q1 2015 increased when compared the same period in 2014 due primarily to payment of higher discretionary employee bonuses, partially offset by lower business development and overall office expenses.

Foreign Exchange

During Q1 2015, the Company recorded a foreign exchange loss of $0.5 million compared to a foreign exchange gain of $0.1 million for the same period in 2014 (realized plus unrealized gains and losses). The foreign exchange loss in Q1 2015 was due the weakening of the Turkish Lira against the Canadian and United States Dollar.

The functional currency for the Company's Turkish operations is the Turkish Lira. Foreign exchange gains and losses are the result of translation of accounts denominated in currencies other than the functional currencies of Valeura and its subsidiaries, and settling transactions denominated in currencies other than the functional currency of the entity.

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

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

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

Other Income

During Q1 2015, the Company recorded other income of $122,000 compared to $125,000 for the same period in 2014. Other income is comprised of processing and marketing income and interest income related to cash on hand.

Funds Flow from Operations[1]

Funds flow from operations for Q1 2015 was $3.7 million compared to $3.6 million for the same period in 2014. The increase in funds flow from operations was due to higher sales revenue, offset by an increase in production costs and general and administrative expenses.

Non-cash Expenses:

Share-based Compensation

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

Share-based compensation expense for Q1 2015 was $170,000 compared to $143,000 for the same period in 2014. The increase can be attributed to a greater amount of stock options outstanding in 2015 when compared to 2014.

Financing costs

	Three months ended	
	March 31, 2015	March 31, 2014
Accretion of decommissioning obligations	**$ 202**	$ 151
Interest expense	**19**	-
Total financing costs	**$ 221**	$ 151

Financing costs for Q1 2015 increased in comparison to the same period in 2014 due to an increase in well locations and the associated impact on decommissioning obligations.

Exploration and Evaluation Expense

Exploration and evaluation ("E&E") expense consists of exploration projects that are deemed to have a lower fair value when compared to book value. E&E expense in Q1 2015 and Q1 2014 was nominal.

Depletion and Depreciation

Depletion and depreciation for Q1 2015 was $2.8 million compared to $2.9 million for the same period in 2014. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q1 2015 was $25.50/boe compared to $24.89/boe for the same period in 2014 with production volumes remaining relatively consistent.

Deferred Tax

Deferred tax for Q1 2015 was an expense of $0.1 million compared to an expense of $0.4. million for the same period in 2014. Deferred tax relates to changes in the temporary difference between the net book value and the

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

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

tax basis of the assets and liabilities in the Company's Turkish operations that commenced in 2011. Although the Company is carrying a deferred tax liability, it does not expect to be cash taxable for the foreseeable future provided that capital expenditures in Turkey are not significantly reduced.

Currency Translation Adjustments

Translation of all assets and liabilities from their respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in accumulated other comprehensive income or loss ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. 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 2015 was a loss of $2.1 million compared to a gain of $0.2 million for the same period in 2014 and is related to the fluctuation in the value of the Turkish Lira compared to the Canadian dollar in the respective periods. In Q1 2015, the currency translation adjustment loss was due to the weakening of the Turkish Lira against the Canadian Dollar.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
	March 31, 2015	March 31, 2014
Geological and geophysical	**$ 476**	$ 719
Dispositions	**-**	(454)
Drilling, completions & equipping	**759**	3,191
Recompletions and fracking	**199**	481
Other	**1**	5
Total	**$ 1,435**	$ 3,942

Turkey

Capital spending for Q1 2015 was $1.4 million, including $0.5 million for geological and geophysical operations, $0.75 million for drilling, completions and equipping and $0.2 million for recompletions and fracs.

During Q1 2015, the Company drilled a second appraisal well at Gurgen-3 on the 2014 Gurgen discovery in the Osmanli area on the TBNG JV lands. The well was drilled to a depth of 1,803 metres in the Osmancik formation, cased to a depth of 1,650 metres and put on production early in the quarter. The Gurgen-3 well is located approximately 500 metres southeast of successful Gurgen-2 appraisal well.

During Q1 2015, the Company completed workovers on four gross shallow gas wells (1.6 net) on the TBNG JV lands.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2015	March 31, 2014
Opening cash position	**$ 5,928**	$ 6,511
Inflow of funds		
Proceeds on asset disposition	**-**	454
Funds from operations	**3,673**	3,638
Proceeds on discontinued operations	**-**	102
	3,673	4,194
Outflow of funds		
Capital expenditures	**(1,435)**	(4,396)
Decommissioning costs incurred	**(19)**	(15)
Changes in working capital and foreign exchange on cash	**(65)**	(810)
	(1,519)	(5,221)
Closing cash position	**$ 8,082**	$ 5,484

Capital Funding and Resources

As at March 31, 2015, Valeura's working capital balance was $12.3 million including cash and cash equivalents of $8.1 million. Valeura's 2015 opening cash position was $5.9 million. In Q1 2015, the Company utilized this opening cash balance plus funds flow from operations of $3.7 million to fund an exploration and development capital program of $1.4 million. The resultant cash and cash equivalents balance at March 31, 2015 was $8.1 million after also reflecting an additional $0.1 million in outflows of funds related to changes in working capital and foreign exchange on cash, and decommissioning costs settled.

Financial Capacity

At the end of Q1 2015 the Company's working capital surplus was $12.3 million. The combination of this working capital surplus plus funds flow from operations for 2015 is expected to be sufficient to fund the Company's target capital program in 2015 in the range of $18.0 to $20.0 million. The Company has considerable flexibility in managing capital given the terms of licence agreements and joint venture operating agreements in Turkey. Any commitments related to the lease and licence terms are incorporated in the capital budget.

The Company maintains considerable flexibility in managing its capital budget for 2015. The budgeted capital spending is split between the TBNG JV lands and the Banarli exploration licence with approximately 50 percent of spending in each respective area. The drilling and workover capital spending on the TBNG JV lands would be considered lower risk spending with the objective of maintaining production levels with certain growth anticipated. Capital spending on the Banarli exploration licence would be considered higher risk capital. The Banarli seismic is underway as of May 1, 2015 and drilling could begin as early as the fourth quarter of 2015 when the seismic is expected to be processed and fully interpreted. The Company has budgeted one initial exploration commitment well in the fourth quarter, contingent on the 3D seismic results and the Company's cash position at the time. The Banarli exploration spending has been conservatively budgeted with minimal impact to funds flow from operations in 2015. There is between $4.5 and $5.0 million of purely discretionary spending in the 2015 capital budget that can be removed without any negative impact on projected funds flow from operations and working capital surplus. As a result of the above factors, management believes that the current working capital surplus and the outlook for production and funds flow levels are adequate to fund the remaining 2015 budgeted capital program. There is no current expectation of utilizing either equity capital or debt capital to fund the remaining 2015 budget. However, Valeura will continue to review sources of capital to increase financial capacity.

Capital Management

The Company's objective is to maintain a flexible capital structure which allows it to execute its growth strategy through expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available include working capital and funds flow from operations.

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

The Company's capital expenditures include expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. However, the Company is currently exploring the potential for a lending facility for its operations in Turkey.

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

Selected Quarterly Information

				Three months ended
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Total daily production (boe/d)	1,223	1,180	997	1,123
Average wellhead price ($/boe)	$ 65.14	$ 63.73	$ 58.11	$ 59.65
Petroleum and natural gas sales	7,167	6,921	5,331	6,097
Funds flow from continuing operations	3,673	3,654	3,011	3,283
Per share, basic and diluted	0.06	0.06	0.05	0.06
Net income (loss) from continuing operations	107	697	(171)	285
Per share, basic and diluted	$ 0.00	$ 0.01	$ 0.00	$ 0.01

				Three months ended
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Total daily production (boe/d)	1,274	1,149	967	815
Average wellhead price ($/boe)	$ 57.98	$ 60.04	$ 61.41	$ 62.92
Petroleum and natural gas sales	6,650	6,347	5,465	4,664
Funds flow from continuing operations	3,638	3,672	2,940	1,721
Per share, basic and diluted	0.06	0.06	0.05	0.03
Net income (loss) from continuing operations	276	(6,854)	(4,711)	(2,212)
Per share, basic and diluted	$ 0.01	$ (0.12)	$ (0.08)	$ (0.04)

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 high natural gas prices and netbacks in Turkey.
- With significant drilling and production operations in Turkey, the Company has had a high level of foreign exchange and currency translation exposure.

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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

Commitments and Contractual Obligations

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 $1.0 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.

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, 2014 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, 2015 and ending on March 31, 2015 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, 2015 other than those previously disclosed under commitments.

Financial Instruments

Financial instruments of the Company include cash and cash equivalents, 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, and until recently in the Canadian oil and gas indistry, which are inherently risky. These risks have not materially changed from December 31, 2014. The reader is referred to Valeura's December 31, 2014 audited consolidated financial statements, MD&A and 2014 AIF for a description of these risks.