valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 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 March 8, 2016 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 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, 2015 ("2015 AIF"). The reporting currency is the Canadian dollar (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as at and for the years ended December 31, 2015 and 2014, and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 of the consolidated financial statements.

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

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

In 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 comparative period results. 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" are non-GAAP measures and do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuers. The Company uses these supplemental non-GAAP measures to assist readers in evaluating operating performance. The following table reconciles Valeura's cash provided by operating activities to funds flow from operations:

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Cash provided by operating activities	**$ 1,955**	$ 4,912	**$ 11,693**	$ 12,141
Decommissioning costs incurred	**-**	204	**19**	219
Change in non-cash working capital	**(355)**	(1,462)	**(1,527)**	1,226
Funds flow from operations	**$ 1,600**	$ 3,654	**$ 10,185**	$ 13,586

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 anticipated timing of first gas from the Bati Gurgen-1 well; the ultimate extent of the fracking program on the Yayli-1 well at Banarli and the timing thereof; the future completion of the Danismen formation in the Bati Gurgen-1 well and Osmancik formation in the Yayli-1 well; the planned drilling program on the Banarli licences and TBNG JV lands in 2016 and the associated timelines; the extent of over-pressure below approximately 2,500 metres on the Banarli licences and certain TBNG JV lands and the potential for a basin-centered gas play; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; tieing in new wells and getting these on-stream; the timing, estimated costs and ability to fund each of the foregoing; and the plans to attract a joint venture partner(s) to drill the deep, potential basin-centered gas play on the Banarli licences 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 prospectivity of the Banarli licences; the availability of operating cash flow and the ability to finance development from existing cash and operating cash flow; the ability to meet drilling deadlines and other requirements under licences and leases (including spudding deadlines under the Company's 100 percent owned Banarli licences); the ability to attract partners and negotiate farm-out arrangements; 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 Turkey; 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 the Banarli licences); 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 in Turkey; 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 2015 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		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Financial				
Petroleum and natural gas sales	**$ 4,425**	$ 6,921	**$ 21,543**	$ 24,998
Net income (loss)	**287**	697	**(562)**	1,090
Per share, basic and diluted	**-**	0.01	**(0.01)**	0.02
Funds flow from operations[1]	**1,600**	3,654	**10,185**	13,586
Per share, basic and diluted	**$ 0.03**	$ 0.06	**$ 0.18**	$ 0.23
Production volumes				
Natural gas (Mcf/d)	**4,805**	7,022	**5,745**	6,812
Crude oil (bbl/d)	**8**	10	**8**	8
Total (boe/d)	**809**	1,180	**966**	1,143
Sales prices				
Natural gas (per Mcf)	**$ 9.93**	$ 10.62	**$ 10.20**	$ 9.96
Crude oil (per bbl)	**44.51**	62.66	**50.35**	78.64
Total (per boe)	**59.45**	63.73	**61.10**	59.92
Capital expenditures (net)	**$ 6,100**	$ 2,822	**$ 13,192**	$ 10,846
Working capital			**7,253**	10,044
Cash			**6,973**	5,928
Weighted average shares outstanding Basic and diluted (thousands)[2]	**57,906**	57,906	**57,906**	57,906

Outstanding Share Data

	December 31, 2015
Common shares	57,906,135
Warrants	13,269,217
Stock options	5,177,000
Fully Diluted	76,352,352

As part of the February 11, 2011 private placement financing the Company issued 132,692,175 share purchase warrants with a strike price of $0.55 per warrant. The share purchase warrants were not part of the 10:1 share consolidation completed in 2011, and as such, 10 share purchase warrants are required to acquire one common share in the Company at a price of $5.50 per common share. As at February 29, 2016, the share purchase warrants exercisable into 13,269,217 common shares had expired. The fully diluted number of shares outstanding at March 8, 20165 is 63,083,135.

[1] Non-GAAP measure – see note regarding non-GAAP measures on page 1.
[2] The weighted average number of common shares outstanding is not increased for outstanding stock options and warrants when the effect is anti-dilutive.

The Company

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

Valeura was established in 2010 to grow internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest which included the Mediterranean Basin. The Company completed its first international transaction in Turkey during 2010 and since that time has executed a number of other transactions and won several new exploration licence awards in the country. As at December 31, 2015, the Company held an interest in 21 exploration licences and production leases comprising approximately 0.63 million gross acres (0.31 million net acres) primarily in the Thrace Basin (87% of net lands) of northwest Turkey and the Anatolian Basin (13% of net lands) of southeast Turkey.

The assets in the Thrace Basin include a 100 percent working interest in two exploration licences in an early exploration and production stage, a 40 percent working interest in 14 production leases and exploration licences under a joint venture with an established natural gas production and marketing business and a 35 percent working interest in three production leases with mature shallow gas production operations. The Thrace Basin lands have both conventional shallow gas exploration and development potential and unconventional tight gas potential. The tight gas play is in early-stage development after more than four years of activity aimed at de-risking the play. Some of these lands are also believed to have potential for a basin-centered gas play in over-pressured formations below approximately 2,500 metres. The assets in the Anatolian Basin include two exploration licences with oil potential.

In June 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. The reader is referred to the Company's 2015 AIF for a detailed description of the old and new licencing terms in Turkey. Voluntary conversion of existing exploration licences to the new regime was encouraged, where possible, but which required 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.

During the course of 2014 and 2015, Valeura and its joint venture partners made applications to the GDPA to convert a number of existing exploration licences to new exploration licences or production leases. As at December 31, 2015 the GDPA had approved the conversion of all eligible exploration licences held by the Company and its joint venture partners and approved a number of production leases in the normal course.

Turkish Operations

Thrace Basin

TBNG-PTI Asset Acquisition

On June 8, 2011, the Company closed its largest 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. This acquisition closed contemporaneously with acquisitions made by affiliates of TransAtlantic Petroleum Ltd. ("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 natural gas production in the Thrace Basin, interests in 293,670 gross acres of onshore and offshore land (117,468 net) as at December 31, 2015, and exposure to a significant unconventional tight gas opportunity in the Thrace Basin. The lands are encompassed in twelve production leases and two exploration licences, all located onshore, following the conversion process to the new petroleum law. As at December 31, 2015, applications by the TBNG JV for one new exploration licence and two production leases remain under review by the GDPA.

Natural gas is currently produced from approximately 100 wells (gross) on the TBNG JV lands. Approximately 65 percent of the natural gas produced in Q4 2015 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500 to 1,500 metres. The gas, which is composed primarily of methane, is gathered, dehydrated and compressed in owned facilities and distributed on an owned sales line network directly to more than 55 light industry customers. TransAtlantic manages the marketing arrangements on behalf of the parties under the joint venture operating agreement.

The TBNG JV has had an active program to exploit the shallow gas resource potential on its lands, including well workovers, 3D seismic and new drilling.

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 1,500 to 3,700 metres, depending on the area. Accordingly, the Company focussed the majority of its capital program on the TBNG JV lands in the 2011 to 2014 period on tight gas exploitation. This has included a program to re-enter selected existing medium-depth wells to frack 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 fracks (including 11 multi-stage fracks) and 18 new drill fracks (including 11 multi-stage fracks) during the period from July 1, 2011 to December 31, 2015. Natural gas production from tight gas sands in these fracked wells contributed approximately 35 percent of the natural production from the TBNG JV lands in Q4 2015.

In Q3 2014, Valeura and its partners in the TBNG JV commenced a seven-well (gross) conventional natural gas drilling program targeting the Osmancik formation in the Osmanli area on the new 3D seismic acquired in late 2013. All of the wells were cased. The most significant discovery was at Gurgen-1, which is located about 500 metres south of the boundary with Valeura's Banarli licences. This Gurgen-1 discovery was delineated with two appraisal wells in late 2014 and early 2015. As at December 31, 2015, six of the seven wells drilled remained on production and were contributing to sales from the TBNG JV. The Dogu Osmanli-1 well indicated gas bearing pay in the Mezardere formation only and Valeura elected to case and complete the well as an independent operation and continues to evaluate the Mezardere formation as a potential frack candidate.

Banarli Exploration Licences

On April 8, 2013, the Company announced that it had been awarded the Banarli Licence 5104 on a 100 percent basis. The exploration licence originally covered an area of 118,598 gross acres near the centre and deepest part of the Thrace Basin and had a four-year initial term. The Company shot 93 kilometres of new 2D seismic in June 2013 to complement more than 300 kilometres of vintage 2D seismic on this licence. During Q2 2015, the GDPA approved the Company's application to convert the Banarli licence under the new petroleum law to two new contiguous exploration licences encompassing an area of 133,840 gross acres. The clock on the initial term of the licences has been re-started and has also been extended to five years ending on June 27, 2020. During the initial five-year term, the Company will be required to complete, in aggregate on the two licences, 152 square kilometres of 3D seismic (already completed) and drill three wells, including a 2,000 metre well in each of year one and year two and a 3,800 metre well in year four. The total assigned value to this program is US$9.15 million and an associated two percent bond has been submitted to the GDPA. As at December 31, 2015, the Company had already completed the 3D seismic commitment and two of the three-well drilling commitments.

With the successful conversion of the Banarli licences in 2015 and the late 2014 drilling success just south of the Banarli licences on the TBNG JV lands at Gurgen-1, Valeura has shifted its corporate strategy to focus on exploration for both shallow conventional gas and deeper unconventional tight gas at Banarli. As an initial step, Valeura acquired 152 square kilometres of 3D seismic in the second quarter of 2015 and merged this with the 3D seismic at Osmanli and Tekirdag providing an interpreted data set covering more than 580 square kilometres. Valeura subsequently drilled two vertical exploration wells at Banarli in November and December 2015.

The first of these exploration wells Bati Gurgen-1 was drilled to a depth of 2,735 metres into the top of the Teslimkoy member of the Mezardere formation, with the primary target being conventional gas in the Osmancik formation. The relatively tight Teslimkoy member was first evaluated with a diagnostic fracture injection test which confirmed that the Teslimkoy member is over-pressured. However the net pay encountered to this depth in the Teslimkoy member was not sufficient to warrant a frack. The well was therefore completed in the Osmancik formation at a depth of approximately 1,500 metres and flowed at a restricted rate of 3.4 MMcf/d on a 24-hour production test in December 2015. The well was tied-in to a TBNG JV dehydration facility located about 3 kilometres away and first natural gas sales are expected imminently. The gas is to be sold to the TBNG JV, which in turn is expected to distribute the gas to its existing customer base. The Danismen formation located above the Osmancik formation also appears attractive based on log analysis and will likely also be completed in the coming months.

The second exploration well Yayli-1 was drilled to a depth of 2,914, penetrating an attractive interval in the Osmancik formation with shallow gas potential. The well also penetrated multiple over-pressured, tighter stacked sands in the Teslimkoy member. A diagnostic fracture injection test confirmed that this Teslimkoy interval is over-pressured to the same extent as encountered in the Bati Gurgen-1 well. An extensive fracture stimulation program is underway in the over-pressured tight sands in the Teslimkoy member as a first step in the completion program for the well. The up-hole Osmancik formation also appears attractive and could also be completed in the future.

Edirne Asset Acquisition

The Company closed its first small acquisition in the Thrace Basin with the purchase of a 35 percent working interest in natural gas assets acquired 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 is the operator. 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. Edirne is a mature asset and currently provides only small sales volumes of less than 50 Mcf/d (net).

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. An affiliate of TransAtlantic is the operator. In July 2012, the operator re-entered the Alibey-1 well, a small Mardin formation heavy oil discovery, and drilled 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 but at a high water cut. 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 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).

Outlook

The Company is continuing to execute its strategy to shift emphasis from its non-operated 40 percent working interest in the TBNG JV to its 100 percent owned and operated Banarli licences in the Thrace Basin.

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

The Company expects to provide further guidance on anticipated capital expenditures and production volumes in 2016 once the fracking program is completed on the Yayli-1 well and production performance is available from the Bati Gurgen-1 and Yayli-1 wells at Banarli.

The Company will continue to seek farm-in partner(s) to accelerate delineation of the potential basin-centered gas play on the Banarli licences and certain TBNG-PTI JV lands.

Results of Operations

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Petroleum and natural gas sales	**$ 4,425**	$ 6,921	**$ 21,543**	$ 24,998
Royalties	**(598)**	(936)	**(2,913)**	(3,380)
Production costs	**(510)**	(966)	**(2,243)**	(2,842)
Operating netback[1]	**3,317**	5,019	**16,387**	18,776
Other income	**253**	31	**831**	431
General and administrative	**(1,763)**	(1,445)	**(6,298)**	(5,363)
Realized foreign exchange gain (loss)	**(207)**	49	**(735)**	(258)
Funds flow from operations[1]	**1,600**	3,654	**10,185**	13,586
Non-cash expenses				
Share-based compensation	**(164)**	(159)	**(639)**	(581)
Accretion on decommissioning liabilities	**(230)**	(189)	**(827)**	(651)
Exploration and evaluation expense	**-**	(2)	**-**	(75)
Unrealized foreign exchange gain	**1,439**	444	**381**	350
Depletion and depreciation	**(1,960)**	(2,638)	**(8,996)**	(10,207)
Deferred tax recovery (expense)	**(398)**	(413)	**(666)**	(1,332)
Net Income (loss)	**$ 287**	$ 697	**$ (562)**	$ 1,090

Corporate Sales Volumes

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Natural gas (Mcf/d)	**4,805**	7,022	**5,745**	6,812
Crude oil (bbl/d)	**8**	10	**8**	8
Total (boe/d)	**809**	1,180	**966**	1,143

Sales volumes in Q4 2015 and the year ended December 31, 2015 decreased to 809 barrels of oil equivalent per day ("boe/d") and 966 boe/d, respectively, compared to 1,180 boe/d and 1,143 boe/d for the same periods in 2014 due to natural declines and reduced drilling and other capital expenditures on the TBNG JV lands. Drilling commenced in Q4 2015 on the Banarli licences. First gas sales from the Bati Gurgen-1 well at Banarli are expected imminently.

[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)

Corporate Operating Netbacks ($ per boe)

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Petroleum and natural gas sales	**$ 59.45**	$ 63.73	**$ 61.10**	$ 59.92
Royalties	**(8.04)**	(8.62)	**(8.26)**	(8.10)
Production costs	**(6.85)**	(8.89)	**(6.36)**	(6.81)
Operating netback	**$ 44.56**	$ 46.22	**$ 46.48**	$ 45.01

Pricing Information

	Three months ended		Years ended	
Average benchmark price	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014
Natural gas – BOTAS (per Mcf)[1]	**TL 21.93**	TL 21.93	**TL 21.93**	TL 20.57
Natural gas – BOTAS (per Mcf)	**$ 10.07**	$ 11.02	**$ 10.32**	$ 10.39
Average exchange rate (TL/CAD)	**2.177**	1.990	**2.126**	1.979

	Three months ended		Years ended	
Average realized prices	**December 31, 2015**	December 31, 2014	**December 31, 2015**	December 31, 2014
Natural gas (per Mcf)	**$ 9.93**	$ 10.62	**$ 10.20**	$ 9.96
Crude oil (per bbl)	**$ 44.51**	$ 62.66	**$ 50.35**	$ 78.64

The following table shows the percentage change in Valeura's realized prices for Q4 2015 and YTD 2015 compared to the same periods in 2014:

	Q4 2015	**YTD 2015**
Natural gas	-6%	2%
Crude oil	-29%	-36%

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"). The benchmark price has remained unchanged since October 1, 2014 when a nine percent increase was implemented. This has resulted in an effective Canadian dollar converted benchmark price of $10.07 per thousand cubic feet ("Mcf") for Q4 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 Q4 2015 of $9.93 per Mcf represents a one percent discount to the BOTAS benchmark price.

The Company's Q4 2015 average realized natural gas price in Turkey decreased by six percent to $9.93 per Mcf from $10.62 per Mcf in Q4 2014 due primarily to the devaluation of the Turkish Lira against the Canadian Dollar partially offset by lower discounts to the BOTAS benchmark price.

[1] BOTAS owns and operates the national crude oil and natural gas pipeline grids in Turkey and purchases the majority of Turkey's natural gas imports. BOTAS regularly posts prices and its Industrial Interruptible Tariff benchmark is shown herein as a reference price. See the 2015 AIF for further discussion.

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

Petroleum and Natural Gas Sales Revenues

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Natural gas	**$ 4,392**	$ 6,863	**$ 21,389**	$ 24,774
Crude oil	**33**	58	**154**	224
Total revenues	**$ 4,425**	$ 6,921	**$ 21,543**	$ 24,998

The composition of petroleum and natural gas sales revenues for the year ended December 31, 2015 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q4 2015 decreased in comparison to the same period in 2014 due primarily to decreased volumes and lower realized natural gas prices due to the devaluation of the Turkish Lira against the Canadian Dollar. Revenues for the year ended December 31, 2015 decreased when compared to the same period in 2014 due primarily to lower volumes partially offset by higher realized natural gas prices in Turkey as a result of the BOTAS benchmark price increase on October 1, 2014.

Royalties

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Royalties	**$ 598**	$ 936	**$ 2,913**	$ 3,380
Percentage of revenue	**13.5%**	13.5%	**13.5%**	13.5%

Royalties in Q4 2015 and the year ended December 31, 2015 decreased in comparison to the same periods in 2014 as a result of lower petroleum and natural gas sales revenue. Revenues in Turkey are subject to a 12.5 percent government royalty and certain overriding royalties of approximately one percent.

Production Costs

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Production costs	**$ 510**	$ 966	**$ 2,243**	$ 2,842
$ per boe	**6.85**	8.89	**6.36**	6.81

Production costs in Q4 2015 and the year ended December 31, 2015 decreased in comparison to the same periods in 2014 due primarily to cost savings initiatives combined with the weakening of the Turkish Lira against the Canadian Dollar.

General and Administrative Expenses

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
General and administrative expenses	**$ 1,354**	$ 1,614	**$ 6,324**	$ 6,036
Business development	**585**	-	**798**	101
Total	**1,939**	1,614	**7,122**	6,137
Recoveries	**(176)**	(169)	**(824)**	(774)
Total general and administrative expenses	**$ 1,763**	$ 1,445	**$ 6,298**	$ 5,363

Total general and administrative expenses for Q4 2015 increased when compared to the same period in 2014 due to increased business development costs associated with efforts by management to obtain long term sources of equity financing along with a proposed lending facility. The business development costs include agency and legal costs. The Company continues to work on significant business development mandates including the farm out process on Banarli, consolidation opportunities in Turkey and raising funds for future exploration in the Thrace Basin.

Foreign Exchange

During Q4 2015 and the year ended December 31, 2015, the Company recorded a foreign exchange gain of $1.2 million and a loss of $0.4 million, respectively, compared to a foreign exchange gain of $0.5 million and $0.1 million for the same periods in 2014 (realized plus unrealized gains and losses). The foreign exchange gain in Q4 2015 is due to strengthening of the Turkish Lira against the Canadian and United States Dollar. The foreign exchange loss for the year ended December 31 2015 is due to 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 assessing its exposure to the Turkish Lira and any possibilities that may exist to mitigate such exposure.

Other Income

During Q4 2015 and the year ended December 31, 2015, the Company recorded other income of $253,000 and $831,000, respectively, compared to $31,000 and $431,000 for the same periods in 2014. Other income is comprised of processing and marketing income and interest income related to cash on hand. The increase in 2015 is attributed to higher average cash levels in comparison to 2014 and higher third party volumes processed in 2015.

Funds Flow from Operations[1]

Funds flow from operations for Q4 2015 and the year ended December 31, 2015 was $1.6 million and $10.2 million, respectively, compared to $3.7 million and $13.6 million for the same periods in 2014. The decrease in funds flow from operations was due to lower sales revenue, increased business development expenses and higher realized foreign exchange losses, partially offset by lower production costs.

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.

[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)

Share-based compensation expense for Q4 2015 and the year ended December 31, 2015 was $164,000 and $639,000, respectively, compared to $159,000 and $581,000 for the same periods in 2014. The increase can be attributed to a greater amount of stock options outstanding in 2015 when compared to 2014.

Accretion on Decommissioning Liabilities

	Three months ended		**Years ended**	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Accretion on decommissioning liabilities	**$ 230**	$ 189	**$ 827**	$ 651

Accretion on decommissioning obligations for Q4 2015 and the year ended December 31, 2015 increased in comparison to the same periods in 2014 due to an increase in well locations and the associated impact on decommissioning liabilities.

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. No E&E expense was recorded in 2015. E&E expense in 2014 was nominal.

Depletion and Depreciation

Depletion and depreciation expenses for Q4 2015 and the year ended December 31, 2015 was $2.0 million and $9.0 million, respectively, compared to $2.6 million and $10.2 million for the same periods in 2014. The decrease in depletion and depreciation compared to 2014 was primarily due to lower production volumes. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q4 2015 and the year ended December 31, 2015 was $26.33/boe and $25.51/boe, respectively, compared to $24.30/boe and $23.47/boe for the same periods in 2014.

Deferred Tax

Deferred tax for Q4 2015 and the year ended December 31, 2015 was an expense of $0.4 million and $0.7 million, respectively, compared to an expense of $0.4 million and $1.3 million for the same periods in 2014. Deferred tax relates to changes in the temporary difference between the net book value and the tax basis of the assets and liabilities in the Company's Turkish operations that commenced in 2011. Although the Company is carrying a deferred tax liability, it does not expect to be cash taxable for the foreseeable future provided that capital expenditures in Turkey are not significantly reduced.

Currency Translation Adjustments

Translation of all assets and liabilities from their respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in accumulated other comprehensive income or loss ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in net earnings.

The currency translation adjustment for Q4 2015 and the year ended December 31, 2015 was a gain of $4.2 million and a loss of $2.9 million, respectively, compared to a gain of $1.3 million and a loss of $0.1 million for the same periods in 2014 reflecting the fluctuation in the value of the Turkish Lira compared to the Canadian dollar in the respective periods.

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

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Geological and geophysical	**$ 564**	$ 402	**$ 6,407**	$ 1,927
Dispositions	**-**	-	**-**	(454)
Drilling, completions & equipping	**5,509**	2,161	**6,418**	6,966
Recompletions and fracks	**23**	206	**344**	2,349
Land	**-**	49	**-**	49
Other	**4**	4	**23**	9
Total	**$ 6,100**	$ 2,822	**$ 13,192**	$ 10,846

Capital spending in Turkey for 2015 was $13.2 million, including $6.4 million for geological and geophysical operations, $6.4 million for drilling, completions and equipping and $0.3 million for recompletions and fracks.

In 2015, the Company shifted emphasis from its non-operated 40 percent working interest in the TBNG JV to its 100 percent owned and operated Banarli licences in the Thrace Basin. In 2015, the Company completed the acquisition and interpretation of a new 3D seismic survey on the Banarli licences. The seismic covers an area of 152 square kilometres, which satisfies the seismic requirement in the initial term of the new licences. Following the interpretation of the 3D seismic, two natural gas wells were drilled on the Banarli licences. As at the date of this MD&A, one well has been completed and put on production and a second well is undergoing completion and fracking operations.

In 2015, the Company completed a capital program on the TBNG JV lands to help mitigate natural production declines. The Company drilled one gross (0.4 net) natural gas well, which is currently contributing to sales from the TBNG JV, and a total of nine gross (3.6 net) workovers.

During Q4 2015, the Company spudded two wells, Bati Gurgen-1 and Yayli-1, on the Company's 100 percent owned and operated Banarli licences. The Bati Gurgen-1 exploration well was drilled to a measured depth of 2,735 metres into the top of the Teslimkoy member of the Mezardere formation. The Yayli-1 exploration well was drilled to a measured depth of 2,914 metres into the Teslimkoy member. Both wells confirmed over-pressure below 2,500 metres in the Teslimkoy. As at the date of this MD&A, the Bati Gurgen-1 well is on production and the Yayli-1 well is undergoing completion and fracking operations. During Q4 2015, the Company completed workovers on one gross shallow gas wells (0.4 net) on the TBNG JV lands.

The total drilling and completion expenditures for the two Banarli wells was $5.0 million in Q4 2015. The remaining capital to be spent in Q1 2016 to complete and bring these wells on-stream is estimated to be $2.5 million.

Credit Facilities

The Company has a general credit facility in the amount of US$0.3 million with a Turkish bank for the purpose of obtaining letters of credit required by the Turkish government. As at December 31, 2015, the Company has issued letters of credit totaling US$0.3 million (December 31, 2014 – US$nil). The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set as the purpose of this facility is for issuance of letters of credit only.

During 2015, Valeura entered into a US$0.5 million Standby Letter of Credit facility with a major Canadian bank for the purposes of issuing letters of credit required by the Turkish government. This facility has no interest terms and a fee of 1.5 percent per annum is calculated on amounts issued under this agreement. Cash security in the amount of $0.1 million is being held on deposit and a performance security guarantee from the Export Development Bank of Canada has been issued supporting this credit facility.

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

Share Capital

Common shares	Number of Shares	Amount
Balance, December 31, 2015 and 2014	**57,906,135**	**$ 135,778**

As at December 31, 2015, Valeura had 57,906,135 common shares outstanding, 5,177,000 outstanding options, and 13,269,217 share purchase warrants for a total number of shares outstanding of 74,349,352, assuming exercise of all options and warrants. As at February 29, 2016, the share purchase warrants exercisable into 13,269,217 common shares expired. The total number of shares outstanding at March 8, 2016 is 63,083,135, assuming exercise of all outstanding stock options.

Liquidity, Financing and Capital Resources

	Three months ended		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Opening cash position	**$ 7,972**	$ 5,974	**$ 5,928**	$ 6,511
Inflow of funds				
Proceeds on asset disposition	**-**	-	**-**	454
Funds from operations	**1,600**	3,654	**10,185**	13,586
Proceeds on discontinued operations	**-**	76	**-**	1,074
Changes in working capital and foreign exchange on cash	**3,501**	-	**4,071**	-
	5,101	3,730	**14,256**	15,114
Outflow of funds				
Capital expenditures	**(6,100)**	(2,822)	**(13,192)**	(11,300)
Decommissioning costs settled	**-**	(204)	**(19)**	(219)
Changes in working capital and foreign exchange on cash	**-**	(750)	**-**	(4,178)
	(6,100)	(3,776)	**(13,211)**	(15,697)
Closing cash position	**$ 6,973**	$ 5,928	**$ 6,973**	$ 5,928

Capital Funding and Resources

As at December 31, 2015, Valeura's working capital balance was $7.3 million including cash and cash equivalents of $7.0 million. Valeura's 2015 opening cash position was $5.9 million. In 2015, the Company utilized this opening cash balance plus funds flow from operations to fund an exploration and development capital program of $13.2 million. The resultant cash and cash equivalents balance at December 31, 2015 was $7.0 million after reflecting a $4.1 million inflow of funds attributed to changes in working capital and foreign exchange on cash.

Financial Capacity

At the end of 2015 the Company's working capital was $7.3 million. The combination of this working capital plus funds flow from operations for 2016 is expected to be sufficient to fund the Company's target capital program in 2016 of up to $15.0 to $17.0 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 2016. The budgeted capital spending is split between the TBNG JV lands and the Banarli licences with approximately 75 percent dedicated to the Banarli licences. The limited drilling and workover capital spending on the TBNG JV lands is lower risk spending with the objective of mitigating but not fully offsetting natural production declines. Capital spending on the Banarli licences is higher risk capital. The Banarli seismic acquisition phase was completed in June 2015 and the first two exploration wells, Bati Gurgen-1 and Yayli-1 were drilled in November and December of 2015, respectively. Early success with these two wells has given management encouragement to focus 2016 spending on additional drilling at Banarli. The Company will continue to utilize current working capital and funds flow from operations to advance the drilling program at Banarli. There is no current expectation of utilizing either equity capital or debt capital to fund any increased 2016 budget in the event of further drilling success at Banarli. 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 Turkey.

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

Selected Quarterly Information

				Three months ended
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total daily production (boe/d)	809	794	1,045	1,223
Average wellhead price ($/boe)	$ 59.45	$ 58.98	$ 59.35	$ 65.14
Petroleum and natural gas sales	4,425	4,309	5,642	7,167
Funds flow from operations	1,600	1,949	2,963	3,673
Per share, basic and diluted	0.03	0.03	0.05	0.06
Net income (loss)	287	(169)	(787)	107
Per share, basic and diluted	$ 0.01	$ -	$ (0.01)	$ -

				Three months ended
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Total daily production (boe/d)	1,180	997	1,123	1,274
Average wellhead price ($/boe)	$ 63.73	$ 58.11	$ 59.65	$ 57.98
Petroleum and natural gas sales	6,921	5,330	6,097	6,650
Funds flow from operations	3,654	3,011	3,283	3,638
Per share, basic and diluted	0.06	0.05	0.06	0.06
Net income (loss)	697	(171)	288	276
Per share, basic and diluted	$ 0.01	$ -	$ 0.01	$ 0.01

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

- Revenue is directly impacted by the Company's ability to offset natural production declines with production additions from an on-going capital expenditure program.
- Valeura is benefiting from high natural gas prices and netbacks in Turkey.
- With significant drilling and production operations in Turkey, the Company has a high level of foreign exchange and currency translation exposure.

Fourth Quarter Review

During Q4 2015, petroleum and natural gas sales were up by three percent from Q3 2015 reflecting workover activity and higher customer demand and down 36 percent from Q4 2014 due to natural declines and reduced drilling and other capital expenditures on the TBNG JV lands. This resulted in funds flow from operations of $1.6 million in Q4 2015. The Company spent $6.1 million on exploration and development capital which was funded by funds flow from operations and the existing cash position. Net income of $0.3 million was recorded in Q4 2015, which reflects recognition of $2.0 million of depletion and depreciation, $0.2 million of share-based compensation, $0.2 million of accretion on decommissioning liabilities offset by $1.4 million of unrealized foreign exchange gains.

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

Selected Annual Information

			Years Ended
	December 31, 2015	December 31, 2014	December 31, 2013
Petroleum and natural gas sales	$ 21,543	$ 24,998	$ 21,084
Cash provided by operations	11,693	12,141	11,679
Funds flow from operations	10,185	13,586	9,864
Per share, basic and diluted	0.18	0.23	0.17
Net income (loss)	(562)	1,090	(14,571)
Per share, basic and diluted ($/share)	(0.01)	0.02	(0.25)
Daily production (boe/d)	966	1,143	932
Sales price ($/boe)	61.10	59.92	62.00
Cash	6,973	5,928	6,511
Total assets	101,212	99,165	97,273
Total long term liabilities	19,945	17,124	13,633
Net working capital	$ 7,253	$ 10,044	$ 6,834

Valeura's petroleum and natural gas sales, cash provided by operations, funds flow from operations and net income are all impacted by production levels and commodity pricing. Daily production in 2015 declined 15 percent from 2014 due to natural declines and reduced drilling and other capital expenditures. Natural gas prices have remained strong in Turkey over the three year period but have been negatively impacted by the devaluation of the Turkish Lira to the Canadian dollar. The reference price for domestic gas sales in Turkey (priced in Turkish Lira) increased by nine percent on October 1, 2014 to partially offset the impact of the weakening of the Turkish Lira and has remained unchanged as at the date of this MD&A. In 2013, net income was negatively impacted by E&E expenses of $13.3 million. The Company incurred a nominal amount of E&E expenses in 2014 and none in 2015.

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		Years ended	
	December 31, 2015	December 31, 2014	**December 31, 2015**	December 31, 2014
Petroleum and natural gas revenue	**$ -**	$ 2	**$ -**	$ 653
Royalties	**-**	(1)	**-**	(73)
Other income	**-**	19	**-**	19
Production (expense) recovery	**-**	6	**-**	(344)
Funds flow from (used in) discontinued operations	**-**	26	**-**	255
Financing expense	**-**	-	**-**	(14)
Depletion	**-**	-	**-**	(109)
Gain on disposition	**-**	50	**-**	140
Income from discontinued operations	**$ -**	$ 76	**$ -**	$ 272

Commitments

On June 15, 2015, Valeura entered into a new 39 month sublease agreement for its current office space in Calgary commencing on November 1, 2015 and ending on January 30, 2019. The Company has the option to terminate the sublease agreement after 18 months. The total amount committed under this sublease is approximately $1.4 million including an estimate for operating costs over the term of the sublease. At December 31, 2015 the remaining commitment of $1.3 million will be discharged in the following years: 2016 – $0.4 million, 2017 – $0.4 million, 2018 – $0.4 million, 2019 – $0.1 million.

New Accounting Pronouncements and Critical Accounting Policies

Use of estimates and judgments

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

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

Critical judgments in applying accounting policies:

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

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

Key sources of estimation uncertainty:

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

- Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property, plant and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument 51-101 and the COGE Handbook.

- The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies in determining the removal cost, and the estimate of the liability specific discount rates to determine the present value of these cash flows.
- The Company's estimate of share-based compensation is dependent upon estimates of historic volatility and forfeiture rates.
- The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Adoption of Accounting Standards

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

In 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.

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the officers concluded that Valeura's DC&P were effective as at December 31, 2015.

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

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2015, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2015 and concluded that as of December 31, 2015, Valeura maintained effective ICFR. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated control – Integrated Framework ("2013 Framework") replacing the Internal Control Framework (1992). Valeura has designed its internal controls over financial reporting based on the 2013 framework, which was adopted for the year ended December 31, 2015. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

There were no changes to Valeura's ICFR during the year ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at December 31, 2015 other than those previously disclosed under commitments.

Financial Instruments

Financial instruments of the Company include cash, accounts receivable, accounts payable and accrued liabilities. The carrying values of the financial instruments approximate their fair values due to their relatively short periods to maturity.

Business Risks and Uncertainties

There are a number of risk factors that the Company faces as participants in the international oil and gas industries, which are inherently risky.

The reader is referred to Valeura's 2015 AIF for a more complete description of business risks and uncertainties.

Political Risks

Recently, Turkey has experienced periods of political unrest and civil disobedience primarily associated with the Syrian crisis on its border, the large influx of Syrian refugees to Turkey and the movement of Kurdish fighters from Turkey into Syria. This has resulted in the devaluation of the Turkish Lira compared to the Canadian dollar, particularly in 2014 and 2015, which has negatively impacted the Company's revenues from Turkey. These events have not impacted the Company's ability to conduct drilling and production operations and no delays or security issues have been experienced.

Variations in Foreign Exchange Rates and Interest Rates

The Company's functional currency in its subsidiary operations in Turkey is the Turkish Lira. The revenue stream in Turkey is based on Turkish Lira revenue for natural gas sales and US dollar based revenue for crude oil translated into Turkish Lira. Decreases in the value of the Turkish Lira could therefore result in decreases in revenue. The Company's drilling operations in Turkey and related contracts are based primarily in US dollars. Operating costs in

Turkey are based primarily in Turkish Lira. Material increases in the value of the US dollar compared to the Canadian dollar will negatively impact the Company's costs of seismic and drilling and completions activity. Increases in the value of the Turkish Lira could result in increases in operating costs. Future Canadian/US dollar and US dollar/Turkish Lira exchange rates could also impact the future value of the Company's reserves as determined by independent evaluators.

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

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

Foreign Operations

The Company pursues operations outside of Canada. As such, the Company's operations will be subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, interpretation or renegotiation of existing contracts, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. Problems may also arise due to the quality or failure of locally obtained equipment or technical support, which could result in failure to achieve expected target dates for exploration operations or result in a requirement for greater expenditure. In addition, the Company is a non-operator on the majority of its properties in Turkey and may not always be able to reach agreement with its partners, which could negatively impact costs and timing.

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

Prices, Markets and Marketing

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

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

The BOTAS price is a reference price fixed by the Turkish government. The natural gas reference price is correlated to contract prices for natural gas imports into Turkey. Any reduction to the price of imported gas would allow the Turkish government to reduce natural gas subsidies and pay down debt and may not result in a pass-through reduction in the reference price. Weakening of the TL/USD exchange rate has the potential to cause the government gas subsidy to increase. Considering the high natural gas prices in the surrounding region, and the devaluation of the Turkish Lira against the United States Dollar throughout 2015, the current level of natural gas pricing in Turkey is not expected to decline in the near term. There is potential for some of the larger regional natural gas producers such as Iran and Russia to renegotiate more favorable USD priced contracts with the Turkish government. As a result of natural gas infrastructure restrictions and the lack of gas-on-gas competition in Turkey, Valeura does not have the same susceptibility that other producers have to fluctuations in global commodity prices, which have seen significant reductions throughout 2015.

Volatility of Commodity Prices

Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect oil prices include the actions of OPEC, non-OPEC supply growth, world economic conditions, government regulation, political stability throughout the world, the availability of alternative fuel sources and weather conditions. World oil prices are quoted in United States dollars and the price received by the Company is affected by the Canadian/US dollar exchange rate, which will fluctuate over time. Natural gas prices internationally are affected by supply and demand, weather conditions and by prices of alternative sources of energy. Turkish natural gas prices are quoted in Turkish Lira and the price received by the Company is affected by the Canadian dollar/Turkish Lira exchange rate, which fluctuates over time. Material increases in the value of the Canadian dollar may negatively impact production revenues. Such increases may also negatively impact the future value of reserves as determined by independent evaluators. In 2015, the Canadian dollar had decreased materially in value against the United States dollar.

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

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

Capital Requirements

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

Third Party Credit Risk

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

Exploration, Development and Production

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

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

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

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

Uncertainty of Reserve Estimates

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

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

Environment, Health and Safety

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

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

Management of Growth

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

Insurance

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