valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013 and 2012

(tabular amounts in thousands of Canadian Dollars, except share or per share 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, 2013 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, 2013 and 2012. 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, 2012 ("2012 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 2012 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 financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2012.

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.

Special Note Regarding Additional-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 loss for the period adjusted for non-cash items) are additional GAAP measures and do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuer's. The closest GAAP measure to operating netback and funds flow from operations is net loss – see the reconciliation of these additional-GAAP financial measures to net loss under "Results of Operations". The Company uses these supplemental additional-GAAP measures to assist readers in evaluating operating performance.

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is provided for the purpose of providing information about 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, information with respect to: the Company's growth strategy, operational decisions and the timing thereof; development and exploration plans and expenditures for the Company's Turkish operations, including expenditures for the planned tight gas development in the Thrace Basin and any additional expenditures and timing associated with farm-in lands, and the funding thereof; anticipated work programs, budgets and operational plans, including targeted seismic, drilling, workovers, fracs and completions, the targeted drilling of the horizontal wells to be completed with multi-stage fracs, the attributes of those wells and the future development in the Thrace Basin, the ability to clear land mines and secure the safety of the Bostanci Licence 4985 for potential drilling, the completion and testing of the Alibey-1 well, and the timing, costs and ability to fund each of the foregoing; the prospectivity of the Banarli Licence 5104 and other licences; the extension of the drilling deadline at Bostanci; and, the potential for the Hayrabolu area to be a second focus area for tight gas development with the potential for higher pressures and larger reserves targets. 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 is 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 and close on acquisitions; the ability of the Company to obtain financing on acceptable terms; future drilling and fracing activity; 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 Bostanci Licence 4985, Banarli Licence 5104 and Karakilise License 5052); 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 de-mine and safely operate in the Bostanci area; 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 plans and anticipated costs, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of fracing, mechanical de-mining and other oil specialized equipment and service providers, availability of deep capacity drilling rigs for potential drilling on the Bostanci and Banarli licences 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, both domestically and 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 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 meet drilling deadlines and the requirements under licences and leases (including licences 4985, 5104 and 5052); 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, land mines and unexploded munitions, terrorist attacks, insurgencies or civil unrest (particularly in the southeastern part of 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 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 2012 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 or per share amounts)

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2013	March 31, 2012
Financial		
Petroleum and natural gas sales	**$ 4,848**	$ 6,810
Net loss	**(818)**	(2,340)
Per share, basic and diluted	**(0.01)**	(0.05)
Funds flow from operations[1]	**1,587**	2,939
Per share, basic and diluted	**$ 0.03**	$ 0.06
Production volumes		
Crude oil and NGL's (bbl/d)	**53**	59
Natural gas (Mcf/d)	**4,787**	9,074
Total (boe/d)	**851**	1,572
Sales prices		
Crude oil (per bbl)	**$ 74.76**	$ 88.04
Natural gas (per Mcf)	**10.43**	7.67
Total (per boe)	**63.31**	47.62
Capital expenditures	**$ 6,445**	$ 8,688
Net working capital surplus	**19,457**	24,069
Cash and cash equivalents	**22,758**	22,300
Weighted average shares outstanding		
Basic and diluted	**57,906,135**	46,406,135

Outstanding Share Data

	March 31, 2013
Common shares	57,906,135
Warrants	13,269,217
Stock options	5,068,500
Performance warrants	2,796,750
Diluted	79,040,602

[1] Funds flow from operations is calculated as cash flow from operating activitives before adjustments for decommissioning expenditures and net changes in non-cash working capital.

The Company

Valeura and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey and Western Canada. 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 has executed five other transactions and won three exploration licence awards in Turkey since that time. The Company now holds an interest in approximately 2.0 million gross acres (0.8 million net acres) in the Thrace Basin of northwest Turkey and the Anatolian Basin of southeast Turkey. The assets in the Thrace Basin include a 40 percent interest in an established shallow gas production and marketing business and a large acreage position of approximately 1.0 million gross acres (0.5 million net acres) with exposure to a potentially significant tight gas resource play below the existing shallow gas production. The tight gas play is currently under delineation and development and in the month of March 2013, contributed approximately 30 percent of the natural gas production from the Thrace Basin. The assets in the Anatolian Basin include eight exploration licences with conventional and unconventional oil potential.

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.

The Edirne Licence covers an area of 119,125 gross acres (41,694 net acres) in the Thrace Basin. Valeura acquired a 35 percent working interest in the lands and producing assets associated with the Edirne Licence. Potential exists on the Edirne Licence to carry out well workovers, compression and drilling.

Natural gas production from the Edirne Licence is sold domestically to a large wholesale gas marketer through a nine kilometre tie-in to a large diameter pipeline operated by Boru Hatlari ile Petrol Tasima Anonim Sirketi ("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") 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-PTI lands are operated by TransAtlantic.

This acquisition provided cash flow to the Company from sales of shallow gas production in the Thrace Basin, current interests in 503,633 gross acres of onshore and offshore land (172,326 net), and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The lands located in the Thrace Basin include five production leases and four exploration licences, of which one licence is entirely on land and three licences have a portion in the shallow waters (up to 200 metres water depth) of the Sea of Marmara.

Natural gas is currently produced from approximately 130 wells on the TBNG-PTI lands, all located onshore. Approximately 70 percent of the natural gas produced in March 2013 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at 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 commercial and end-user customers. TransAtlantic has responsibility for the marketing arrangements on behalf of the parties.

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, and fully interpreted by April 2012, to support the Company's exploration and development drilling program for both shallow gas, but more importantly, deeper tight gas targets.

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 is focussing the majority of its capital program in the Thrace Basin on tight gas exploitation. The Company has had an active program of re-entering selected existing medium-depth wells to fracture stimulate ("frac") selected sandstone units, as well as drilling and fracing new medium-depth and deep wells as part of a proof-of-concept tight gas exploitation program. The Company completed re-entry fracs (primarily single stage fracs) on 24 existing wells and both single-stage and multi-stage fracs in nine new drill wells during the period from July 1, 2011 to March 31, 2013. Natural gas production from tight gas sands in these frac'd wells contributed approximately 30 percent of the natural production from the TBNG-PTI lands in March 2013, and this contribution is growing.

Thrace Basin Farm-ins, Other Acquisitions and New Licence Awards

On June 13, 2011, the Company completed a farm-in to earn a 50 percent working interest in Licences 4094 and 4532 owned by an affiliate of TransAtlantic (TransAtlantic farm-in) in the Thrace Basin. TransAtlantic remains as the operator of these licences. The combined licences require the commitment to drill two wells and spend approximately US$3.0 million on seismic. The Company drilled the first well, Evrenbey-1, in November 2011. The Evrenbey-1 well was cased and suspended. The remaining estimated commitment is approximately US$4.5 million.

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 has re-applied for Licence 3999 and 4187 with a 100 percent working interest. A decision by the GDPA on the award of these licences remains outstanding and timing is uncertain.

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 near the centre and deepest part of the Thrace Basin. The licence has a four-year initial term and requires that a well be spudded within the first year.

In aggregate, the Company held interests in 13 production leases and exploration licences in the Thrace Basin covering an area of 984,221 gross acres (454,051 net) as at March 31, 2013.

Anatolian Basin

Karakilise

On November 14, 2011, the Company executed a binding letter agreement with GYP and AME which defined Valeura's working interest of 27.5 percent in the two Karakilise Licences 2674 and 2677. Under the terms of the agreement, the Company agreed to fully fund the first US$1.3 million of the deepening cost of Altinakar-1 well on Licence 2674 to the primary exploration target of light oil in the Bedinan Formation. GYP is the operator of the licences. The deepening to a depth of 2,418 metres was completed in March 2012. The well was subsequently cased and produced at rates of approximately 10 to 13 barrels of oil per day ("bbl/d"). The well was frac'd in early September 2012 but it was unsuccessful in improving oil productivity on a sustained basis.

Valeura was also awarded Licence 5052 in the Karakilise area on a 100 percent interest basis in June 2012. As at March 31, 2013, the Company has 365,227 gross (189,587 net) acres of land in the Karakilise area.

Gaziantep

The TBNG-PTI acquisition described above also included lands in the Gaziantep area in the Anatolian Basin. The lands include 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. The operator, TransAtlantic Petroleum, disclosed that the initial productivity of the completed interval was estimated at approximately 150 bbl/d (gross) of heavy oil, based on swabbing results. It is expected that additional indicated porous sections in the well will be perforated and tested on a longer term basis in the second quarter of 2013.

Bostanci

In June 2012, Valeura was awarded Bostanci Licence 4985 on the border with northern Iraq and Syria. The licence was part of a group of licences originally held under the AME-GYP farm-in lands. The lands expired under the previous arrangement and one of the expired licences was subsequently awarded to Valeura.

Valeura currently holds the Bostanci Licence 4985 on a 100 percent basis and is the operator but under a pre-bidding arrangement, Oando Energy Resources Inc. ("Oando") has a right to a 50 percent participating interest. The transfer of a working interest to Oando requires GDPA approval. Valeura and Oando are currently working on the necessary joint venture agreements and equalization of the costs committed for new seismic and other pre-drill expenditures, as prerequisites to seeking GDPA approval to transfer a 50 percent interest to Oando. Funding options to drill an exploration well are also being pursued, including a potential farm-out.

The GDPA and Turkish military have approved the acquisition of a small additional 2D seismic program consisting of five lines with a total length of approximately 15 kilometres within a military-controlled buffer area immediately north of the border with northern Iraq. It has been determined that some of the seismic lines traverse areas that are suspected to contain land mines that will need to be cleared, which could delay the seismic acquisition phase to late June. Discussions have been held with the government to determine the implications of this delay on the mid-June 2013 spudding requirement under the licence terms. The GDPA has confirmed that under the Petroleum Law, the Company has a 90-day period to comply upon notification of non-compliance, which could extend the deadline to approximately mid-October 2013.

In aggregate, the Company held interests in eight exploration licences in the Anatolian Basin covering an area of 976,348 gross acres (378,011 net) as at March 31, 2013.

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

Outlook

As a new initiative in the tight gas delineation and development program in the Tekirdag area on the TBNG-PTI lands in the Thrace Basin, the Company expects to drill and frac two back-to-back horizontal wells at DTD-19H and BTD-4H commencing in June 2013, including one well in the Teslimkoy Formation and the other well in the underlying Upper Kesan Formation. This pilot program will be located in an area where there is 3D seismic control and experience with fracs in these formations in vertical wells. The wells will target prospective gross intervals of 100 to 150 metres in thickness in each formation at a true vertical depth of approximately 1,000 to 1,100 metres. The wells are expected to have a horizontal well length of 800 to 1,000 metres and will be completed with multi-stage fracs. The results will assist in shaping the ultimate tight gas development program on the TBNG-PTI lands in terms of overall cost effectiveness and access to certain areas close to the city of Tekirdag where pad drilling with vertical or horizontal wells may be required to minimize the surface footprint.

In the Gaziantep area of the Anatolian Basin, a new completion and testing program commenced in early May to perforate additional pay and carry out longer term flow tests of the Alibey-1 horizontal well in Licence 4607. New surface facilities have been constructed to handle fluids and trucking. The well is completed in the Mardin Formation and is an indicated heavy oil well. The program will increase the amount of perforated interval in the well and will be carried out in phases, whereby each test interval will be stimulated with an acid squeeze and individually tested.

Results of Operations

	Three months ended	
	March 31, 2013	March 31, 2012
Petroleum and natural gas sales	**$ 4,848**	$ 6,810
Royalties	**(634)**	(968)
Production costs	**(1,187)**	(1,099)
Operating netback[1]	**3,027**	4,743
Other income	**274**	109
General and administrative	**(1,723)**	(1,829)
Realized foreign exchange gain (loss)	**9**	(84)
Funds flow from operations[1]	**1,587**	2,939
Non-cash expenses		
Share based compensation	**(357)**	(372)
Financing costs	**(141)**	(155)
Exploration and evaluation expense	**(10)**	(569)
Unrealized foreign exchange gain (loss)	**117**	229
Depletion and depreciation	**(1,811)**	(3,241)
Impairment	**-**	(888)
Deferred tax expense	**(203)**	(283)
Net loss	**$ (818)**	$ (2,340)

[1] Additional-GAAP measure – see note regarding additional-GAAP measures on page 1

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

Corporate Sales Volumes

	Three months ended	
	March 31, 2013	March 31, 2012
Crude oil and NGLs (bbl/d)	**53**	59
Natural gas (Mcf/d)	**4,787**	9,074
Total (boe/d)	**851**	1,572
Turkey (boe/d)	**792**	1,502
Canada (boe/d)	**59**	70
Total (boe/d)	**851**	1,572

Approximately 93 percent of Valeura's total production is produced within Turkey, the majority of which is natural gas production in the Thrace Basin. Corporate average sales volumes of 851 boe/d for the three months ended March 31, 2013 were lower when compared to average sales volumes of 1,572 boe/d for the same period in 2012 due to natural declines, partially offset by natural gas production from workovers, new wells and fracs in the Thrace Basin.

Corporate Operating Netbacks (per boe)

	Three months ended	
	March 31, 2013	March 31, 2012
Petroleum and natural gas sales	**$ 63.31**	$ 47.62
Royalties	**(8.27)**	(6.77)
Production costs	**(15.50)**	(7.68)
Operating netback	**$ 39.54**	$ 33.17

Sales Volumes and Operating Income – Turkey Operations

	Three months ended	
	March 31, 2013	March 31, 2012
Natural gas (Mcf/d)	**4,645**	8,914
Crude oil (bbl/d)	**17**	16
Total (boe/d)	**792**	1,502
Operating income:		
Petroleum and natural gas sales	**$ 4,608**	$ 6,432
Royalties	**(618)**	(865)
Production costs	**(1,019)**	(909)
Operating income	**$ 2,971**	$ 4,658

Operating Netbacks (per boe) – Turkey Operations

	Three months ended	
	March 31, 2013	March 31, 2012
Petroleum and natural gas sales	**$ 64.70**	$ 47.06
Royalties	**(8.68)**	(6.33)
Production costs	**(14.31)**	(6.65)
Operating netback (per boe)	**$ 41.71**	$ 34.08

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

Pricing Information

	Three months ended	
Average benchmark prices	**March 31, 2013**	March 31, 2012
Crude oil – Edmonton Light (per bbl)	**$ 88.16**	$ 92.18
AECO (per GJ)	**3.03**	2.04
Natural gas – BOTAS (per Mcf)[1]	**TL 20.12**	TL 15.19
Natural gas – BOTAS (per Mcf)	**$ 11.37**	$ 8.47
Average exchange rate (TL/CAD)	**1.7700**	1.7929
Valeura's average realized prices		
Crude oil (per bbl)	**$ 74.76**	$ 88.04
Natural gas – Turkey (per Mcf)	**10.66**	7.77
Natural gas – consolidated (per Mcf)	**$ 10.43**	$ 7.67

The following table shows the percentage change in Valeura's realized prices for Q1 2013 compared to Q1 2012:

Crude oil	-15%
Natural gas	36%

Natural gas prices remain much stronger in Turkey when compared to Canada. With approximately 93 percent of Valeura's current production coming from natural gas in Turkey, the Company is well positioned to take advantage of Turkey's higher natural gas prices. Natural gas prices under sales contracts for all production in the Thrace Basin are linked to the BOTAS benchmark price in Turkish Lira. The effective Canadian dollar converted reference price is $11.37 per Mcf for Q1 2013. All natural gas sales in the Edirne field are delivered to the BOTAS pipeline and sold to a large wholesale buyer while sales on the TBNG-PTI lands are under direct sales contracts to industrial buyers in the area at prices referenced to the BOTAS benchmark price. All natural gas sales contracts in the Thrace Basin reflect a negotiated discount to the BOTAS benchmark price. The average realized natural gas price in Turkey for Q1 2013 represents a six percent discount to the BOTAS benchmark price.

The Company's Q1 2013 average realized natural gas price in Turkey increased by 37 percent to $10.66 per Mcf from $7.77 per Mcf in the same period in 2012 due to increases in the BOTAS benchmark price effective April 1, 2012 (20 percent increase) and October 1, 2012 (10 percent increase). The strengthening of the Turkish Lira against the Canadian Dollar during Q1 2013 slightly increased the realized price in Canadian Dollars in Q1 2013 compared to Q4 2012.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2013	March 31, 2012
Crude oil and NGLs	**$ 355**	$ 478
Natural gas	**4,493**	6,332
Total revenues	**$ 4,848**	$ 6,810

The composition of petroleum and natural gas sales revenues for the three months ended March 31, 2013 was approximately 93 percent natural gas and 7 percent crude oil and NGLs. Revenues for the three months ended March 31, 2013 decreased in comparison to the same period in 2012 due to lower volumes. The decrease in volumes was partially offset by higher 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 Industrial Interruptible Tariff benchmark is shown herein as a reference price. See the 2012 AIF for further discussion.

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

Royalties

	Three months ended	
	March 31, 2013	March 31, 2012
Royalties	**$ 634**	$ 968
Percentage of revenue	**13.1%**	14.2%

Royalties for the three months ended March 31, 2013 decreased in comparison to the same period in 2012 as a result of lower production volumes and lower revenues. Revenues in Turkey are subject to a 12.5 percent federal royalty and certain overriding royalties.

Production Costs

	Three months ended	
	March 31, 2013	March 31, 2012
Production costs	**$ 1,187**	$ 1,099
$ per boe	**15.50**	7.68

Unit production costs were $15.50/boe in Q1 2013 compared to $7.68/boe in Q1 2012 due to lower production volumes and a high fixed-to-variable operating cost ratio.

General and Administrative Expenses

	Three months ended	
	March 31, 2013	March 31, 2012
General and administrative	**$ 1,852**	$ 1,934
Business development	**153**	139
Total gross general and administrative expenses	**2,005**	2,074
Recoveries	**(282)**	(244)
Total general and administrative expenses	**$ 1,723**	$ 1,829

Total general and administrative ("G&A") expenses for the three months ended March 31, 2013 decreased by six percent when compared to the same period in 2012. The decrease can be attributed to more normalized spending on international operations.

Foreign Exchange

The Company incurred a foreign exchange gain of $126,000 for the three months ended March 31, 2013 compared to a foreign exchange gain of $145,000 for the same period in 2012. The foreign exchange gain in Q1 2013 is due to the strengthening of the Turkish Lira against the Canadian Dollar which was offset by the weakening of the Turkish Lira against the United States Dollar.

The functional currency for the Company's Turkish operations is the Turkish Lira and the functional currency for the Company's Canadian operations is the Canadian Dollar. 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.

Other Income

During the three months ended March 31, 2013, the Company recorded other income of $274,000 compared to $109,000 for the same period in 2012. Other income in Q1 2013 is comprised of processing fee income and interest income related to cash on hand. In Q1 2012 other income was comprised of interest income related to cash on hand.

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

Income Taxes

During the three months ended March 31, 2013 and 2012, the Company did not record any current income tax expense. Capital spending and utilization of tax pools in Q1 2013 was sufficient to offset income earned during the quarter.

Funds Flow from Operations

Funds flow from operations for the three months ended March 31, 2013 was $1.6 million compared to $2.9 million for the same period in 2012. The decrease in funds flow from operations for the three months ended March 31, 2013 is the result of lower production volumes which was partially offset by higher natural gas prices in Turkey.

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 the three months ended March 31, 2013 was $357,000 compared to $372,000 for the same period in 2012.

Financing costs

	Three months ended	
	March 31, 2013	March 31, 2012
Accretion of decommissioning obligations	**$ 141**	$ 155

Accretion of decommissioning obligations for the three months ended March 31, 2013 was $141,000 compared to $155,000 for the same period in 2012. Accretion of decommissioning obligations was lower in Q1 2013 when compared to Q1 2012 due to lower inflation and lower discount rates used in determining the Company's overall decommissioning liability.

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 was nominal for the three months ended March 31, 2013 compared to $0.6 million for the same period in 2012.

Depletion and Depreciation

Depletion and depreciation for the three months ended March 31, 2013 was $1.8 million compared to $3.2 million for the same period in 2012. For the three months ended March 31, 2013 depletion and depreciation was lower when compared to the same period in 2012 due to lower total 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 the three months ended March 31, 2013 was $23.65/boe compared to $22.65/boe for the same period in 2012.

Impairment

During the three months ended March 31, 2013, the Company did not record any impairment. For the same period in 2012, impairment of $0.9 million related to a reduction in the fair value of Canadian assets as a result of decreased Canadian natural gas prices.

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

Deferred Tax

Deferred tax expense for the three months ended March 31, 2013 was $0.2 million compared to $0.3 million for the same period in 2012. 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 the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in 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 the three months ended March 31, 2013 was a gain of $0.5 million compared to a gain of $2.2 million for the same period in 2012 and are related to the fluctuation in value of the Turkish Lira when compared to the Canadian Dollar in the respective periods. The currency translation gain in Q1 2013 is due to the strengthening of the Turkish Lira against the Canadian dollar.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended	
Turkey	**March 31, 2013**	March 31, 2012
Geological and geophysical	**$ 322**	$ 202
Land	**-**	1,554
Drilling and completions	**5,590**	5,036
Equipping	**293**	123
Recompletions and fractures	**197**	1,579
Other	**3**	2
Turkey total	**6,405**	8,496
Canada total	**40**	192
Consolidated total	**$ 6,445**	$ 8,688

Turkey

Capital spending for Q1 2013 was $6.4 million of which $5.6 million related to drilling and completion activities in Turkey. The Company spudded a total of two gross wells (0.8 net) (TDR-14 and Hayrabolu-10), which targeted tight gas on the TBNG-PTI lands in the Thrace Basin. Both wells are cased as indicated gas wells and are currently awaiting completion, testing and fracing.

The Company progressed the initial phase of a tight gas delineation and development drilling and fracing program in the Tekirdag area on the TBNG-PTI lands in Q1 2013. The initial phase is focused on completing a number of key delineation wells drilled in the Q4 2012 with development-type, multi-stage fracs in the Teslimkoy and Upper Kesan formations, and a program of drilling and fracing new delineation wells, including piloting the first horizontal wells on the TBNG-PTI lands. In Q1 2013, the TDR-14 well was drilled and cased as an indicated gas well and multi-stage fracs were completed at the Baglik-1, DTD-19 and BTD-5 wells. All three frac'd wells are tied into the gathering system and delivered an aggregate initial average 30-day on-stream rate of 2.0 MMcf/d (gross). The wells are continuing to clean-up and recover frac fluids and the Baglik-1 well remains choked during clean-up.

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

The Company continued the deep exploration drilling program on 3D seismic in the Hayrabolu area in the northern part of the TBNG-PTI lands, where the target tight gas sands and shale source rocks are approximately 2,500 metres deeper than in the Tekirdag area. The Hayrabolu-10 well was drilled to a depth of 4,054 metres and was cased in early April as an indicated gas well. The well is the deepest well drilled on the TBNG-PTI lands and penetrated the Upper Kesan Formation, where elevated pressures are evident.

A total of two gross (0.8 net) shallow gas workovers were completed on the TBNG-PTI lands and three gross (1.05 net) workovers were completed on the Edirne Licence.

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2013	March 31, 2012
Opening cash position	**$ 29,031**	$ 24,107
Inflow of funds		
Funds from operations	**1,587**	2,939
	1,587	2,939
Outflow of funds		
Capital expenditures	**(6,445)**	(8,688)
Decommissioning costs incurred	**(25)**	(2)
Changes in working capital and foreign exchange on cash	**(1,390)**	3,944
	(7,860)	(4,746)
Closing cash position	**$ 22,758**	$ 22,300

Capital Funding and Resources

As at March 31, 2013, Valeura's working capital balance was $19.5 million including a cash and cash equivalents position of $22.8 million.

The Company's cash position and funds flow from operations are the primary sources of capital for exploration and development expenditures in 2013. Valeura's opening cash position in 2013 was $29.0 million. During the three months ended March 31, 2013 the Company utilized this opening cash balance and funds flow from operations of $1.6 million to fund an exploration and development capital program of $6.4 million. The resultant cash and cash equivalents balance at March 31, 2013 is $22.8 million.

Financial Capacity

At the end of Q1 2013 the Company's working capital position was approximately $19.5 million. The combination of this working capital surplus plus estimated cash flow is expected to be sufficient to fund the Company's target capital program in 2013. The Company has considerable flexibility in how it manages its capital program given the terms of licence agreements in Turkey and the structure of its joint venture operating agreements.

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

Capital Management

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

The Company's capital 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. It is expected that the Company's borrowing capacity will increase with continued expansion of production and reserves in Turkey. In the future, if the Company borrows on a bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations or any other covenants under a potential international lending facility. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

Selected Quarterly Information

				Three months ended
	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Total daily production (boe/d)	851	1,008	1,140	1,340
Average wellhead price ($/boe)	$ 63.31	$ 58.37	$ 55.88	$ 56.28
Petroleum and natural gas sales	4,848	5,409	5,859	6,864
Funds from operations	1,587	2,700	2,803	3,373
$ per share (basic and diluted)[1]	0.03	0.05	0.06	0.07
Net loss	(818)	(12,110)	(702)	(752)
$ per share (basic and diluted)[1]	(0.01)	(0.21)	(0.02)	(0.02)

				Three months ended
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Total daily production (boe/d)	1,572	1,856	1,635	692
Average wellhead price ($/boe)	$ 47.62	$ 44.61	$ 38.81	$ 43.02
Petroleum and natural gas sales	6,810	7,619	5,837	2,707
Funds from operations	2,939	4,085	1,983	(1,622)
$ per share (basic and diluted)[1]	0.06	0.09	0.04	(0.06)
Net loss	(2,340)	(3,406)	(3,749)	(4,359)
$ per share (basic and diluted)[1]	(0.05)	(0.07)	(0.08)	(0.17)

[1] The average number of common shares outstanding is not increased for outstanding stock options and performance warrants when the effect is anti-dilutive.

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

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

- Revenue is directly impacted by the Company's ability to replace existing declining production and add incremental production through its on-going capital expenditure program.
- Valeura is benefiting from higher natural gas prices and netbacks in Turkey. In Canada, the price of natural gas has been negatively impacted by an increasing supply of natural gas coming from new technology tapping into abundant supplies of tight shale gas reservoirs in North America.
- The Company acquired producing natural gas assets in the Thrace Basin in 2011 which added approximately 1,500 boe/d of production at the time. The results of operations from these assets are included in the Company's financial and operating results from the close of the acquisitions. The Company incurred significant non-recurring transactions costs totaling $1.9 million related to these acquisitions.
- With the commencement of significant drilling and production operations in Turkey in 2011, the Company has increased foreign exchange and currency translation exposure. Capital expenditures in Turkey are denominated in US Dollars and Turkish Lira and gas prices and operating expenses are denominated in Turkish Lira resulting in currency exposure on a consolidated basis. The foreign exchange gain in Q1 2013 was $0.1 million while the currency translation adjustment recorded in accumulated other comprehensive income was a gain of $0.5 million. The currency translation gain for the three months ended March 31, 2013 is the result of the strengthening of the Turkish Lira against the Canadian Dollar.

Segmented Information

	Three months ended	
	March 31, 2013	March 31, 2012
Petroleum and natural gas revenue		
Canada	**$ 240**	$ 378
Turkey	**4,608**	6,432
	4,848	6,810
Net income (loss)		
Canada	**(1,558)**	(3,006)
Turkey	**740**	666
	(818)	(2,340)
Capital expenditures		
Canada	**40**	192
Turkey	**6,405**	8,496
	$ 6,445	$ 8,688
Total assets		
Canada	**23,464**	31,440
Turkey	**102,036**	90,691
	$ 125,500	$ 122,131

Commitments and Contractual Obligations

On June 13, 2011, the Company entered into a farm-in agreement to earn a 50 percent working interest in Licence 4094 and 4532 (TransAtlantic farm-in) in the Thrace Basin. The combined licences require the commitment to drill two wells and spend approximately US$3.0 million on seismic. The remaining commitment at March 31, 2013 is approximately US$4.5 million, which is comprised of one well and the seismic program.

On August 31, 2011, the Company entered into a two-year sublease agreement for office space in Calgary commencing on November 1, 2011 and expiring on October 31, 2013. The total amount committed under this sublease was approximately $0.4 million which includes an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.1 million as at March 31, 2013.

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

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. The reader is referred to Valeura's December 31, 2012 audited consolidated financial and MD&A for a description of estimates and judgments.

Adoption of Accounting Standards

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

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, 2013 and ending on March 31, 2013 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, 2013 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 participants in the Canadian and international oil and gas industries, which are inherently risky. These risks have not materially changed from December 31, 2012. The reader is referred to Valeura's December 31, 2012 audited consolidated financial statements, MD&A and 2012 AIF for a description of these risks.