



**Consolidated Financial Statements**  
**Years ended December 31, 2013 and 2012**

## MANAGEMENT'S REPORT

The management of Valeura Energy Inc. is responsible for the preparation of all information included in the consolidated financial statements and Management's Discussion & Analysis ("MD&A"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial information that is presented in the MD&A is consistent with the consolidated financial statements.

In preparation of the consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been presented fairly in all material respects.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the presentation of consolidated financial statements.

KPMG LLP, an independent firm of chartered public accountants, was appointed by management to audit the consolidated financial statements of Valeura Energy Inc. and provide an independent professional opinion. Their report is presented with the consolidated financial statements below.

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of independent directors. Valeura Energy Inc.'s Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

(signed) "Jim McFarland"  
President and CEO

(signed) "Steve Bjornson"  
VP Finance & CFO

March 11, 2014

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Valeura Energy Inc.

We have audited the accompanying consolidated financial statements of Valeura Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Report Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Valeura Energy Inc. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*(signed)*

"KPMG LLP"  
Chartered Accountants  
Calgary, Canada

March 11, 2014

**Consolidated Statements of Financial Position**

(thousands of Canadian Dollars)	<b>December 31, 2013</b>	December 31, 2012
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 6,511	\$ 29,031
Accounts receivable	7,533	6,863
Prepaid expenses and deposits	449	439
	<b>14,493</b>	36,333
Exploration and evaluation assets ( <i>notes 5,6</i> )	<b>29,998</b>	48,595
Property, plant and equipment ( <i>notes 5,6</i> )	<b>52,782</b>	40,783
	<b>\$ 97,273</b>	\$ 125,711
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,659	\$ 12,076
Decommissioning obligations ( <i>note 8</i> )	<b>8,835</b>	9,441
Deferred taxes ( <i>note 9</i> )	<b>4,798</b>	6,857
Shareholders' Equity		
Share capital ( <i>note 11</i> )	<b>135,778</b>	135,778
Warrants ( <i>note 11(d)</i> )	<b>5,971</b>	5,971
Contributed surplus	<b>11,743</b>	9,678
Accumulated other comprehensive loss	<b>(11,638)</b>	(5,735)
Deficit	<b>(65,873)</b>	(48,355)
	<b>75,981</b>	97,337
	<b>\$ 97,273</b>	\$ 125,711

See accompanying notes to the consolidated financial statements

See Commitments (*note 16*)

See Subsequent Events (*note 17*)

**Consolidated Statements of Loss and Comprehensive Loss  
For the years ended December 31, 2013 and 2012**

(thousands of Canadian Dollars)	<b>December 31, 2013</b>	December 31, 2012
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 22,050	\$ 24,942
Royalties	(2,906)	(3,392)
Other Income	852	780
	<b>19,996</b>	22,330
<b>Expenses</b>		
Production	3,957	4,254
General and administrative (note 10)	5,794	6,285
Gain on asset disposition	(10)	(171)
Financing (note 13)	569	613
Foreign exchange loss (gain)	1,900	(100)
Share-based compensation (notes 10,11)	1,696	1,649
Exploration and evaluation (note 5)	13,327	13,606
Depletion and depreciation (note 6)	8,395	10,459
Impairment (note 6)	3,286	3,364
	<b>38,914</b>	39,959
Loss for the year before income taxes	<b>(18,918)</b>	(17,629)
Income taxes		
Deferred tax recovery (note 9)	(1,400)	(1,724)
<b>Net loss</b>	<b>(17,518)</b>	(15,905)
Other comprehensive income (loss)		
Currency translation adjustments	(5,903)	1,816
<b>Comprehensive loss</b>	<b>(23,421)</b>	(14,089)
Net loss per share (note 11)		
Basic and diluted	\$ (0.30)	\$ (0.32)
Weighted average number of shares outstanding (thousands)	<b>57,906</b>	48,983

See accompanying notes to the consolidated financial statements



**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2013 and 2012**

(thousands of Canadian Dollars)	December 31, 2013	December 31, 2012
Cash was provided by (used in):		
<b>Operating activities:</b>		
Net loss for the year	\$ (17,518)	\$ (15,905)
Depletion and depreciation (note 6)	8,395	10,459
Impairment (note 6)	3,286	3,364
Exploration and evaluation expense (note 5)	13,327	13,606
Share-based compensation (notes 10,11)	1,681	1,649
Financing expenses (note 13)	569	613
Unrealized foreign exchange loss (gain)	1,873	(75)
Gain on asset disposition (note 6)	(10)	(171)
Deferred tax expense (recovery) (note 9)	(1,400)	(1,724)
Decommissioning costs incurred (note 13)	(218)	(41)
Change in non-cash working capital (note 12)	2,022	(1,938)
	<b>12,007</b>	<b>9,837</b>
<b>Financing activities:</b>		
Issuance of shares (note 11(c),11(e))	-	14,950
Share issuance costs (note 11(c),11(d),11(e))	-	(1,231)
	-	13,719
<b>Investing activities:</b>		
Property and equipment expenditures (note 6)	(5,433)	(4,499)
Exploration and evaluation expenditures (note 5)	(21,540)	(26,756)
Proceeds on asset disposition (note 6)	10	189
Change in non-cash working capital (note 12)	(7,251)	12,367
	<b>(34,214)</b>	<b>(18,699)</b>
Foreign exchange loss (gain) on cash held in foreign currencies	(313)	67
<b>Net change in cash and cash equivalents</b>	<b>(22,520)</b>	<b>4,924</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>29,031</b>	<b>24,107</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,511</b>	<b>\$ 29,031</b>



**Consolidated Statements of Changes in Shareholders' Equity  
For the Years ended December 31, 2013 and 2012**

(thousands of Canadian Dollars)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2012	57,906	\$ 135,778	\$ 5,971	\$ 9,678	\$ (48,355)	\$ (5,735)	\$ 97,337
Net loss for the year	-	-	-	-	(17,518)	-	(17,518)
Currency translation adjustments	-	-	-	-	-	(5,903)	(5,903)
Share-based compensation	-	-	-	2,065	-	-	2,065
<b>December 31, 2013</b>	<b>57,906</b>	<b>\$ 135,778</b>	<b>\$ 5,971</b>	<b>\$ 11,743</b>	<b>\$ (65,873)</b>	<b>\$ (11,638)</b>	<b>\$ 75,981</b>

(thousands of Canadian Dollars)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2011	46,406	\$ 122,059	\$ 5,971	\$ 7,653	\$ (32,450)	\$ (7,551)	\$ 95,682
Issuance of shares pursuant to public offering	11,500	14,950	-	-	-	-	14,950
Share issuance costs	-	(1,231)	-	-	-	-	(1,231)
Net loss for the year	-	-	-	-	(15,905)	-	(15,905)
Currency translation adjustments	-	-	-	-	-	1,816	1,816
Share-based compensation	-	-	-	2,025	-	-	2,025
<b>December 31, 2012</b>	<b>57,906</b>	<b>\$ 135,778</b>	<b>\$ 5,971</b>	<b>\$ 9,678</b>	<b>\$ (48,355)</b>	<b>\$ (5,735)</b>	<b>\$ 97,337</b>

See accompanying notes to the consolidated financial statements

**1. Reporting Entity**

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey and Western Canada. Valeura is incorporated in Alberta, Canada and has subsidiaries in the Netherlands and Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol VLE. Valeura's head office address is 1200, 202 – 6 Avenue SW, Calgary, AB, T2P 2R9.

**2. Basis of Preparation****(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at and for the years ended December 31, 2013 and 2012, and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 below.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion, depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and share-based compensation are presented by their nature in the notes to the consolidated financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2014.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are discussed in note 4.

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

**(c) Functional and presentation currency**

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

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

**(d) 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 proven 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.

- In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.
- 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.

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in the consolidated financial statements and have been applied consistently by the Company and its subsidiaries.

#### **(a) Basis of consolidation**

##### *(i) Subsidiaries:*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, substantive potential voting rights are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of loss as a gain.

##### *(ii) Jointly controlled operations and jointly controlled assets:*

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

##### *(iii) Transactions eliminated on consolidation:*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

#### **(b) Financial instruments**

##### *(i) Non-derivative financial instruments:*

Valeura's non-derivative financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and outstanding credit facilities.

- Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Typically, the fair value of these balances approximates their carrying value due to their short term to maturity.
- Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest method. Due to the short term nature of accounts payable and accrued liabilities, their carrying values approximate their fair values.
- The Company's outstanding credit facilities bear interest at a floating rate and accordingly the fair market value approximates the carrying value before the carrying value is reduced for any remaining unamortized costs.

Non-derivative financial instruments carried at fair value are assessed using the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

There were no transfers within the hierarchy during the year.

*(ii) Share capital:*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**(c) Property, plant and equipment and exploration and evaluation assets**

*(i) Recognition and measurement:*

Exploration and evaluation expenditures:

Pre-licence costs are recognized in the statement of loss as incurred. Exploration and evaluation ("E&E") costs, including the costs of acquiring licences and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Development and production costs:

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

*(ii) Subsequent costs:*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

*(iii) Depletion and depreciation:*

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20 percent to 50 percent per year.

*(iv) Exploration and evaluation expense:*

Upon determination that an exploration and evaluation CGU is impaired, the Company will transfer costs associated with the applicable CGU to exploration and evaluation expense in the period.

**(d) Impairment**

*(i) Financial assets:*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

*(ii) Non-financial assets:*

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated via an impairment test.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, or CGU. The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

**(e) Share based payments**

The grant date fair value of options and performance warrants granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

**(f) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

*(i) Decommissioning obligations:*

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is

recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

**(g) Revenue**

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Royalty income is recognized as it accrues in accordance with the terms of the royalty agreements.

**(h) Finance income and expenses**

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

**(i) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(j) Earnings per share**

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

**(k) Flow through shares**

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements in Canada are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized on the statement of financial position. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

**(l) Recent accounting standards and interpretations issued but not yet effective**

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interest in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instruments 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.

The International Accounting Standards Board (“IASB”) released the following new standards which are effective for fiscal years beginning January 1, 2014:

IFRIC 21 – “Levies” requires extensive disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRIC 21 is for annual periods beginning on or after January 1, 2014 and initial application is in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” on a retrospective basis.

The Company is currently assessing the impact, if any, that the adoption of this standard will have on its financial statements.

**4. Determination of Fair Values**

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*(i) Property, plant and equipment (“PP&E”) and intangible exploration and evaluation (“E&E”) assets:*

The fair value of PP&E recognized in an acquisition, is based on market values. The market value of PP&E is the estimated amount for which property, plant & equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets is estimated based on either internally or externally prepared evaluations of these assets.

*(ii) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and credit facilities:*

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and outstanding credit facilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and December 31, 2012, the fair value of these balances approximated their carrying values due to their short term to maturity.

*(iii) Stock options:*

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

**5. Exploration and Evaluation Assets**

Cost or deemed cost	Total
Balance, December 31, 2011	\$ 42,050
Additions	26,756
Transfer to property, plant and equipment ( <i>note 6</i> )	(7,918)
Capitalized share-based compensation	270
Exploration and evaluation expense	(13,606)
Effects of movements in exchange rates	1,043
Balance, December 31, 2012	48,595
Additions	21,540
Transfer to property, plant and equipment ( <i>note 6</i> )	(22,158)
Capitalized share-based compensation	384
Exploration and evaluation expense	(13,327)
Effects of movements in exchange rates	(5,036)
<b>Balance, December 31, 2013</b>	<b>\$ 29,998</b>

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the year. Transfers to exploration and evaluation expense represent the Company's share of impairment on its E&E assets.

The ultimate recovery of property, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company fulfilling its minimum obligation to earn an interest in its various farm-in lands, obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

**(a) Recoverability of exploration and evaluation assets**

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, by allocating the E&E assets to appropriate CGUs.

**(b) Exploration and evaluation expense**

The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized as exploration and evaluation ("E&E") expense in the statement of loss.

E&E expense consists of exploration projects that are deemed to have a lower fair value when compared to book value. E&E expense for the year ended December 31, 2013 was \$13.3 million (2012 – \$13.6 million) and was comprised of \$5.9 million for the relinquishment or expiry of six licences and \$7.4 million for impairment on the Company's Karakilise licences.

**6. Property, Plant and Equipment**

Cost or deemed cost	Total
Balance, December 31, 2011	\$ 53,723
Additions	4,499
Transfer from exploration and evaluation assets ( <i>note 5</i> )	7,918
Dispositions	(79)
Capitalized share-based compensation	106
Change in decommissioning obligations ( <i>note 8</i> )	1,234
Effects of movements in exchange rates	1,298
Balance, December 31, 2012	68,699
Additions	5,433
Transfer from exploration and evaluation assets ( <i>note 5</i> )	22,158
Change in decommissioning obligations ( <i>note 8</i> )	(43)
Effects of movements in exchange rates	(6,194)
<b>Balance, December 31, 2013</b>	<b>\$ 90,053</b>

Accumulated depletion and depreciation	Total
Balance, December 31, 2011	\$ 13,761
Depletion and depreciation expense	10,459
Dispositions	(27)
Impairment	3,364
Effects of movements in exchange rates	359
Balance, December 31, 2012	27,916
Depletion and depreciation expense	8,395
Impairment	3,286
Effects of movements in exchange rates	(2,326)
<b>Balance, December 31, 2013</b>	<b>\$ 37,271</b>

Net book value	Total
Balance, December 31, 2012	\$ 40,783
<b>Balance, December 31, 2013</b>	<b>\$ 52,782</b>

**(a) Impairment testing**

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

The Company conducted an assessment of impairment triggers for the Company's CGUs for the year ended December 31, 2013. The triggers assessed were market capitalization compared to the carrying value of PP&E assets, the year-end commodity price forecast compared to prior year and any negative technical revisions included in the Company's reserve report. After assessing these impairment triggers the Company concluded that there were indicators of impairment and conducted an impairment test on each of the CGUs.

The estimates of fair value less costs to sell were determined based on the net present value of each CGUs oil and gas reserves using:

- (i) total proved reserves for Canada or proved plus probable reserves for Turkey estimated by Valeura's independent reserves evaluators.
- (ii) the year-end commodity price forecast of our independent reserves evaluators, adjusted for commodity price differentials specific to Valeura's assets.
- (iii) an estimated market rate for discounting the cashflows.

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

- (i) Reserves – assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- (ii) Oil and natural gas prices – forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
- (iii) Discount rate – the discount rate used to calculate the net present value of cash flows is based on estimates of asset sales in Canada and Turkey during 2013. Asset sale values can fluctuate significantly, affecting the discount rate used to determine the net present value of cash flows.

Impairment tests carried out at December 31, 2013 on each Canadian CGU were based on fair value less costs to sell, using a discount rate of between 10 and 15 percent, an inflation rate of 2 percent and the following forward commodity price estimates:

Canada	Foreign Exchange Rate (US\$/CDN\$)	Natural Gas AECO Spot (CDN\$/mmbtu)	Edmonton Light Crude Oil (CDN\$/bbl)	Bow River Crude Oil at Hardisty (CDN\$/bbl)
2014	0.950	4.03	92.76	77.46
2015	0.950	4.26	97.37	81.30
2016	0.950	4.50	100.00	83.50
2017	0.950	4.74	100.00	83.50
2018	0.950	4.97	100.00	83.50
2019	0.950	5.21	100.00	83.50
2020	0.950	5.33	100.77	84.14
2021	0.950	5.44	102.78	85.82
2022	0.950	5.55	104.83	87.53
2023	0.950	5.66	106.93	89.28
Thereafter	0.950	+2.0 percent/year	+2.0 percent/year	+2.0 percent/year

The carrying value of Valeura's Canadian CGUs (Grand Forks, Harmattan and Minor Properties) exceeded their respective fair values less costs to sell resulting in an impairment of \$3.0 million in 2013 (2012 – \$3.4 million). The impairment of PP&E may be reversed if the fair value of an impaired CGU increases in future periods.

Impairment tests carried out at December 31, 2013 on each Turkish CGU were based on fair value less costs to sell, using a discount rate of 10 percent, an inflation rate of 2 percent and the following forward commodity price estimates:

Turkey	Natural Gas Thrace Basin (US\$/mcf)	Natural Gas Edirne (US\$/mcf)	Oil and Condensate (US\$/bbl)
2014	9.52	8.56	100.96
2015	10.56	9.49	96.96
2016	10.77	9.68	96.81
2017	10.98	9.87	96.68
2018	11.20	10.07	96.6
2019	11.43	10.27	96.75
2020	11.66	10.47	98.68
2021	11.89	10.68	100.66
2022	12.13	10.9	102.66
2023	12.37	11.11	104.72
2024	12.62	11.34	106.82
2025	12.87	11.56	108.95
Thereafter	+2.0 percent/year	+2.0 percent/year	+2.0 percent/year

The carrying value of Valeura's Edirne CGU exceeded its fair values less costs to sell resulting in an impairment of \$0.3 million in 2013 (2012 – \$nil). The impairment of PP&E may be reversed if the fair value of an impaired CGU increases in future periods.

The following table summarizes amounts recognized as impairment for PP&E assets:

	Total
Cumulative Impairment, December 31, 2011	\$ 3,088
Impairment of PP&E assets	3,364
Cumulative impairment, December 31, 2012	6,452
Impairment of PP&E assets	3,287
<b>Cumulative impairment, December 31, 2013</b>	<b>\$ 9,739</b>

#### (b) Contingencies

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

#### (c) Canada

For the purposes of calculating depletion, petroleum and natural gas properties in Canada include estimated future development costs of \$2.9 million at December 31, 2013 (2012 – \$2.9 million) associated with the development of the Company's proved plus probable reserves.

#### (d) Turkey

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of \$73.2 million at December 31, 2013 (2012 – \$57.8 million) associated with the development of the Company's proved plus probable reserves.

**7. Credit Facilities**

On October 10, 2012, the Company opened 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, 2013 and 2012, the Company had not drawn an amount on this credit facility. Letters of credit totaling US\$0.1 million were issued in 2013 (2012 – \$0.1 million) against the credit facility. The general credit facility is not secured by any of the Company's assets and interest rate terms have not been set.

**8. Decommissioning Obligations**

	December 31, 2013	December 31, 2012
Decommissioning obligations, beginning of year	\$ 9,441	\$ 7,441
Obligations incurred	135	699
Obligations settled	(218)	(41)
Change in estimates	(178)	535
Accretion of decommissioning obligations <i>(note 13)</i>	569	613
Effects of movements in exchange rates	(914)	194
Decommissioning obligations, end of year	\$ 8,835	\$ 9,441

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The following significant assumptions were used to estimate the decommissioning obligations:

	December 31, 2013	December 31, 2012
Undiscounted cash flows	\$ 20,848	\$ 18,708
Risk free rate – Turkey	10.0%	6.5%
Risk free rate – Canada	2.2%	1.7%
Inflation rate – Turkey	8.0%	8.0%
Inflation rate – Canada	2.0%	2.0%
Timing of cash flows	2-17 years	2-19 years

**9. Income Taxes**

A reconciliation of the expected tax recovery to the actual provision for deferred taxes is as follows:

	December 31, 2013	December 31, 2012
Loss before taxes	\$ (18,918)	\$ (17,629)
Combined federal and provincial tax rate	25.00%	25.00%
Expected income tax recovery	(4,730)	(4,407)
Non-deductible items	438	566
Tax rate changes and other	(303)	(8)
Foreign tax rate differential	350	431
Change in unrecognized deferred tax assets	2,845	1,694
Deferred income tax recovery	\$ (1,400)	\$ (1,724)

The deferred income tax rate applied to the temporary differences in both 2013 and 2012 was 25.0 percent. The Turkish tax rate for 2013 and 2012 is 20.0 percent.

The components of the deferred tax liability are as follows:

	<b>December 31, 2013</b>	December 31, 2012
Property, plant and equipment and exploration and evaluation assets	\$ (12,389)	\$ (11,654)
Decommissioning obligations	1,558	1,763
Non-capital losses and other	6,033	3,034
	<b>\$ (4,798)</b>	<b>\$ (6,857)</b>

The temporary differences that determine the unrecognized deferred tax assets are as follows:

	<b>December 31, 2013</b>	December 31, 2012
Property, plant and equipment and exploration and evaluation assets	\$ 8,703	\$ 3,691
Share issuance costs	3,490	4,884
Decommissioning obligations	1,044	627
Non-capital losses and other	36,218	28,886
	<b>\$ 49,455</b>	<b>\$ 38,088</b>

The Company has tax assets of approximately \$95.3 million at December 31, 2013 (2012 – \$84.0 million) available for deduction against future taxable income. Cumulative non-capital loss carry-forwards in the amount of \$64.0 million at December 31, 2013 (2011 - \$44.2 million) expire between 2016 and 2032.

A continuity of the deferred income tax liability for 2012 and 2013 is detailed in the following tables:

Movement in temporary differences during the year	Balance December 31, 2011	Recognized in profit or loss	Other	Balance December 31, 2012
Property, plant and equipment and exploration and evaluation assets	\$ (10,195)	\$ (1,500)	\$ -	\$ (11,695)
Share issuance costs	1,429	(510)	302	1,221
Provisions	1,522	398	-	1,920
Non-capital losses	5,153	5,030	-	10,183
Other comprehensive income (OCI)	1,308	-	(272)	1,036
Unrecognized deferred tax assets	(7,526)	(1,694)	(302)	(9,522)
	<b>\$ (8,309)</b>	<b>\$ 1,724</b>	<b>\$ (272)</b>	<b>\$ (6,857)</b>

Movement in temporary differences during the year	Balance December 31, 2012	Recognized in profit or loss	Other	Balance December 31, 2013
Property, plant and equipment and exploration and evaluation assets	\$ (11,695)	\$ 238	\$ -	\$ (11,457)
Share issuance costs	1,221	(348)	-	873
Provisions	1,920	(101)	-	1,819
Non-capital losses	10,183	4,456	-	14,639
Other comprehensive income (OCI)	1,036	-	659	1,695
Unrecognized deferred tax assets	(9,522)	(2,845)	-	(12,367)
	\$ (6,857)	\$ 1,400	\$ 659	\$ (4,798)

Deferred income tax is a non-cash item relating to the temporary differences between the accounting and tax basis of Valeura's assets and liabilities and has no immediate impact on the Company's cash flows.

## 10. Administrative Expenses

The components of administrative expenses are as follows:

For the years ended	December 31, 2013	December 31, 2012
Cash:		
Salaries and benefits <sup>(1)</sup>	\$ 3,429	\$ 3,271
Other <sup>(2)</sup>	3,176	3,705
	6,605	6,976
Operating and overhead recoveries	(9)	(9)
Capitalized overhead <sup>(3)</sup>	(802)	(682)
General and administrative	\$ 5,794	\$ 6,285
Non-cash:		
Share-based compensation (note 11)	2,080	2,025
Capitalized share-based compensation <sup>(3)</sup>	(384)	(376)
Share-based compensation	\$ 1,696	\$ 1,649

<sup>(1)</sup> Includes salaries, benefits and bonuses earned by all Directors, Officers and employees of the Company.

<sup>(2)</sup> Includes costs such as rent, legal, consulting, insurance, travel, office, business development and other business expenses incurred by the Company.

<sup>(3)</sup> Includes a portion of salaries, benefits and share-based compensation directly attributable to the exploration and development activities of the Company.

Compensation for Executive Officers and Directors are comprised of the following:

For the years ended	December 31, 2013	December 31, 2012
Salaries and benefits <sup>(1)</sup>	\$ 1,386	\$ 1,419
Share-based compensation <sup>(2)</sup>	1,150	1,152
Executive Officers and Directors compensation	\$ 2,536	\$ 2,571

- (1) Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprised of: Chairman of the Board, President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President of Operations, Vice President of Engineering and other independent Directors.
- (2) Represents the amortization of share-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Company's Stock Option Plan.

## 11. Share Capital

### (a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

### (b) Issued

Common shares	Number of Shares	Amount
Balance, December 31, 2011	46,406,135	\$ 122,059
Shares issued pursuant to public offering ( <i>note 12(e)</i> )	11,500,000	14,950
Share issuance costs	-	(1,231)
Balance, December 31, 2012 and 2013	57,906,135	\$ 135,778

### (c) Public offering

On October 10, 2012, the Company completed a public offering of shares for total gross proceeds of \$14.95 million. Valeura issued a total of 11.5 million common shares at a price of \$1.30 per share. The underwriters received a fee equal to 6 percent of the gross proceeds raised and total share issuance costs were \$1.2 million.

### (d) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. After giving effect to the 10:1 share consolidation completed in 2011, the weighted average number of common shares outstanding for the year ended December 31, 2013 is 57,906,135 (December 31, 2011 – 48,982,638). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

### (e) Performance warrants

Valeura has issued the following performance warrants to directors, officers and certain employees of the Company:

	Number of Performance Warrants	Weighted average exercise price
<b>Balance, December 31, 2012 and December 31, 2013</b>	<b>2,796,750</b>	<b>\$ 2.00</b>
<b>Exercisable at December 31, 2013</b>	<b>2,796,750</b>	<b>\$ 2.00</b>

The vesting of the performance warrants was based on the value attributed to the common shares at certain points in time and the continued employment of the relevant holder. The market price and time vesting conditions for all outstanding performance warrants have been met and the performance warrants are fully vested.

The following table summarizes information about the performance warrants outstanding at December 31, 2013:

Exercise prices	Outstanding at December 31, 2013	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2013	Weighted average exercise price
\$2.00	2,796,750	1.0	\$ 2.00	2,796,750	\$ 2.00

The fair value, at the issue date, of the post-consolidation performance warrants issued was estimated using the Black-Scholes model with the following assumptions:

Fair value of performance warrants granted (\$/warrant)	1.50
Risk-free interest rate (%)	2.5
Expected life (years)	4.5
Expected volatility (%)	110
Expected forfeiture (%)	5
Expected dividend yield (%)	-

#### (f) Stock options

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

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

	Number of Options	Weighted average exercise price
Balance, December 31, 2011	2,315,861	\$ 2.66
Granted	1,063,139	2.03
Balance, December 31, 2012	3,379,000	2.46
Granted	1,689,500	1.00
Forfeited	(47,250)	2.37
Cancelled	(3,174,000)	2.44
<b>Balance, December 31, 2013</b>	<b>1,847,250</b>	<b>\$ 1.15</b>
<b>Exercisable at December 31, 2013</b>	<b>143,680</b>	<b>\$ 2.66</b>

On December 18, 2013, directors, officers and employees of the Company voluntarily surrendered stock options for a nominal payment of \$0.005 per option. This resulted in the cancellation of 3,174,000 stock options and the immediate recognition of the remaining \$0.4 million of share-based compensation expense associated with these options.

The following table summarizes information about the stock options outstanding at December 31, 2013:

Exercise prices	Outstanding at December 31, 2013	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2013	Weighted average exercise price
\$1.00 - \$1.50	1,673,750	6.2	\$ 1.00	-	\$ -
\$1.51 - \$2.05	72,000	3.0	\$ 2.00	72,000	\$ 2.00
\$2.06 - \$3.65	101,500	4.5	\$ 3.05	71,680	\$ 3.32
	1,847,250	6.0	\$ 1.15	143,680	\$ 2.66

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

Assumptions	December 31, 2013	December 31, 2012
Risk free interest rate (%)	1.5	1.6
Expected life (years)	4.5	4.5
Expected volatility (%)	100.0	100.0
Forfeiture rate (%)	5.0	5.0
Weighted average fair value of options granted	\$ 0.72	\$ 1.46

## 12. Supplemental Cash Flow Information

	December 31, 2013	December 31, 2012
Change in non-cash working capital:		
Accounts receivable	\$ (670)	\$ 7,506
Prepaid expenses and deposits	(10)	(225)
Accounts payable and accrued liabilities	(4,417)	2,806
Movements in exchange rates	(132)	342
	(5,229)	10,429

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

	December 31, 2013	December 31, 2012
Operating	2,022	(1,938)
Financing	-	-
Investing	(7,251)	12,367
	\$ (5,229)	\$ 10,429

## 13. Financing Expenses

	December 31, 2013	December 31, 2012
Accretion of decommissioning obligations	\$ 569	\$ 613

**14. Segmented Information**

	<b>December 31, 2013</b>	December 31, 2012
Petroleum and natural gas revenue		
Canada	\$ 966	\$ 1,233
Turkey	<b>21,084</b>	23,709
	<b>22,050</b>	24,942
Net loss		
Canada	<b>(12,043)</b>	(10,587)
Turkey	<b>(5,475)</b>	(5,318)
	<b>(17,518)</b>	(15,905)
Capital expenditures		
Canada	54	132
Turkey	<b>26,919</b>	31,123
	<b>26,973</b>	31,255
Total assets		
Canada	<b>7,728</b>	25,912
Turkey	<b>89,545</b>	99,799
	<b>\$ 97,273</b>	\$ 125,711

**15. Financial Risk Management**

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

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements.

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

**(a) Credit risk**

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

	<b>December 31, 2013</b>	December 31, 2012
Trade and other receivables	\$ 7,533	\$ 6,863

*Trade and other receivables:*

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. Receivables from Canadian petroleum and natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production, and receivables from Turkish petroleum and natural gas marketers are normally collected on the 45<sup>th</sup> day of the month following production. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure.

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

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2013 the Company's receivables consisted of \$6.5 million (2012 – \$5.7 million) of receivables from petroleum and natural gas marketers which has subsequently been substantially collected, \$0.7 million (2012 – \$0.7 million) from joint venture partners, and \$0.3 million (2012 – \$0.4 million) of other accounts receivable. The Company does not consider any receivables to be past due.

**(b) Market risk**

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

*Foreign currency exchange rate risk:*

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. World oil and gas prices are quoted in US Dollars and the price received by Canadian producers can be affected by the Canadian Dollar (CAD)/United States Dollar (USD) exchange rate, which fluctuates over time. The Company's petroleum and natural gas sales are conducted primarily in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira (TL) to Canadian Dollar (CAD) exchange rate. A decrease in the value of the Turkish Lira against the Canadian Dollar will result in a decrease in revenue and a decrease in operating costs in the Company's consolidated financial statements. Correspondingly, an increase in the value of the Turkish Lira against the Canadian Dollar will result in an increase in revenue and an increase in operating costs in the Company's consolidated financial statements. A portion of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian Dollars.

The Company's drilling operations and related contracts in Turkey are based in US Dollars. Material increases in the value of the US Dollar against the Turkish Lira will negatively impact the Company's costs of drilling and completions activities. Future CAD/USD and CAD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

*Interest rate risk:*

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

*Commodity price risk:*

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

*Liquidity risk:*

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

*Capital management:*

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through 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 expenditure includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not subject to any externally imposed capital requirements.

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

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

**16. Commitments**

On October 26, 2012, Valeura entered into a two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately \$1 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately \$0.9 as at December 31, 2013.

**17. Subsequent Events**

On February 19, 2014, Valeura entered into a sale agreement to dispose of its interest in Karakilise licenses 2674 and 2677 for total consideration of \$0.5 million. The Company impaired the carrying value of its Karakilise E&E assets by \$7.4 million through a charge to E&E expense in 2013.