valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 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 March 11, 2014 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 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, 2013 ("2013 AIF"). The reporting currency is the Canadian dollar (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

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

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

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

Special Note Regarding Non-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "operating netback" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "funds flow from operations" (net loss for the period adjusted for non-cash items) are non-GAAP measures and do not have standardized meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuer's. The closest GAAP measure to operating netback and funds flow from operations is net loss – see the reconciliation of these non-GAAP financial measures to net loss under "Results of Operations". The Company uses these supplemental non-GAAP measures to assist readers in evaluating operating performance. The following table reconciles Valeura's cash provided by operating activities to funds flow from operations:

	Three months ended		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Cash provided by operating activities	**3,721**	(933)	**12,007**	9,837
Decommissioning costs incurred	**133**	28	**218**	41
Change in non-cash working capital	**(80)**	3,605	**(2,022)**	1,938
Stock options cancelled	**15**	-	**15**	-
Funds flow from operations	**3,789**	2,700	**10,218**	11,816

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; the 2014 work program and budget; the ability to reduce costs, achieve capital efficiencies, increase production and the associated corporate sales outlook; development and exploration plans and expenditures for the Company's Turkish operations, including the potential number of wells to be drilled and the ability to finance development; anticipated work programs, budgets and operational plans, including targeted seismic, drilling, completions, workovers, well re-entry fracs and fracs on new wells, the continued drilling of horizontal wells with multi-stage frac completions and the expected impact and timing thereof; the future development program in the Thrace Basin; the potential for re-completions and a follow-on development program in the Mezardere Formation, and the number of re-completion candidates; the timing, costs and ability to fund each of the foregoing; and, the plans for and prospectivity of the Banarli Licence 5104 and other licences.

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, fracing and re-completion 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 Company's 100 percent owned Licences 5104 and 5147); the ability to attract partners and negotiate farm-out arrangements; field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, including stock exchange approvals, both domestically and internationally; continued operations of and approvals forthcoming from the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") in a manner consistent with past conduct; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the ability of the Company to manage water production; results of future seismic programs; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in 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 and other specialized oilfield equipment and service providers, 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 secure farm-in partners; the risk of being unable to meet drilling deadlines and the requirements under licences and leases (including Licences 5104 and 5147); the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues, terrorist attacks, insurgencies or civil unrest (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 2013 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		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Financial				
Petroleum and natural gas sales	**$ 6,556**	$ 5,409	**$ 22,050**	$ 24,942
Net loss	**(9,840)**	(12,110)	**(17,518)**	(15,905)
Per share, basic and diluted	**(0.17)**	(0.21)	**(0.30)**	(0.32)
Funds flow from operations[1]	**3,789**	2,700	**10,218**	11,816
Per share, basic and diluted	**$ 0.07**	$ 0.05	**$ 0.18**	$ 0.24
Production volumes				
Crude oil and NGL's (bbl/d)	**44**	61	**49**	63
Natural gas (Mcf/d)	**6,883**	5,682	**5,589**	7,206
Total (boe/d)	**1,191**	1,008	**980**	1,264
Sales prices				
Crude oil (per bbl)	**$ 78.23**	$ 77.98	**$ 82.05**	$ 79.75
Natural gas (per Mcf)	**9.86**	9.54	**10.11**	8.77
Total (per boe)	**59.83**	58.37	**61.66**	53.93
Capital expenditures	**$ 5,780**	$ 6,231	**$ 26,973**	$ 31,255
Net working capital surplus			**6,834**	24,257
Cash and cash equivalents			**6,511**	29,031
Weighted average shares outstanding				
Basic and diluted (thousands)	**57,906**	56,656	**57,906**	48,983

Outstanding Share Data

	December 31, 2013
Common shares	57,906,135
Warrants	13,269,217
Stock options	1,847,250
Performance warrants	2,796,750
Diluted	75,819,352

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

The Company

Valeura and its subsidiaries are currently engaged in the exploration, development and production of petroleum and natural gas in Turkey 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 since that time has executed a number of other transactions and won several new exploration licence awards. As at December 31, 2013, the Company held an interest in approximately 1.2 million gross acres (0.5 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 0.9 million gross acres (0.4 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 early-stage development. The assets in the Anatolian Basin as at December 31, 2013 included three exploration licences with oil potential.

As at the date of this MD&A, the Company has reduced its land holdings in the Anatolian Basin of Turkey. Valeura currently holds an interest in approximately 1.0 million gross acres (0.4 million net acres) in Turkey.

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). Valeura acquired a 35 percent working interest in the lands and producing assets associated with the Edirne Licence.

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") (Valeura 40 percent) 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 joint venture lands are operated by TransAtlantic.

This acquisition provided cash flow to the Company from sales of shallow gas production in the Thrace Basin, interests in 624,361 gross acres of onshore and offshore land (220,617 net) as at December 31, 2013, and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The TBNG-PTI joint venture lands include five production leases and five exploration licences, of which two licences are entirely on land and three licences have a portion in the shallow waters (up to 200 metres water depth) of the Sea of Marmara.

Natural gas is currently produced from approximately 95 wells on the TBNG-PTI joint venture lands, all located onshore. Approximately 50 percent of the natural gas produced in the fourth quarter of 2013 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at 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 joint venture.

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

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 43 existing wells and both single-stage and multi-stage fracs on 13 new drill wells during the period from July 1, 2011 to December 31, 2013. Natural gas production from tight gas sands in these frac'd wells contributed approximately 50 percent of the natural production from the TBNG-PTI joint venture lands in the fourth quarter of 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 in the Thrace Basin. The combined licences required the commitment to drill two wells and spend approximately US$3.0 million on seismic for a total commitment of approximately $4.5 million. The Company drilled the first well, Evrenbey-1, in November 2011, which was cased and suspended without testing. In June 2013, Valeura chose to forego further earning investments and to relinquish its rights under the farm-in arrangement, given its assessment of limited prospectivity on the licence post-drilling, and recorded a charge to exploration expense of $1.4 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 re-applied for Licence 3999 and 4187 with a 100 percent working interest. In July 2013, Valeura was awarded a new exploration Licence 5147 on a 100 percent basis (20,668 gross acres), which encompasses the lands in the expired Licence 4187. A decision by the GDPA on the award of a new licence to replace the expired Licence 3999 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 (185 square miles) 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 by early July 2014, which includes a normal extension of up to 90 days to comply with a notice to drill. The Company shot 93 kilometres of new 2D seismic in June 2013 to complement more than 300 kilometres of vintage 2D seismic on this licence. Valeura is seeking a joint venture partner to participate in funding an exploration program on the Banarli Licence and has engaged Moyes & Co to assist in the farm-out process.

In aggregate, the Company held interests in 13 production leases and exploration licences in the Thrace Basin covering an area of 882,752 gross acres (401,577 net) as at December 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 ("bopd"). The well was frac'd in early September 2012 but the frac 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. The Company reprocessed the existing seismic, much of which was provided by the government after the licence was awarded. Given higher than expected exploration risk associated with the licence following this seismic review, the Company sought a farm-in partner to assist in the funding of a licence-retaining exploration well prior to the mid-October 2013 spudding deadline. However, this farm-out process was not successful and as a result, the licence was relinquished prior to the spudding deadline.

As at December 31, 2013, the Company had 242,262 gross (66,622 net) acres of land in the Karakilise area.

In a subsequent development in February 2014, Valeura sold its 27.5 percent interest in two Karakilise Licences 2674 and 2677 in the Anatolian Basin, which included two marginal oil wells producing in aggregate less than 10 bopd (net). Both licences were near expiry at the end of their 11-year term, requiring applications for production leases and relinquishment of the residual exploration areas by May 2014. The Company assessed that there was limited upside potential in retaining these licences. A charge to exploration expense of $7.4 million was recorded in the fourth quarter of 2013 for a write down to the fair market value of these licences.

Gaziantep

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

In October 2013, the Company and its partners relinquished three of the four Gaziantep licences, which were assessed to have limited prospectivity. The Company has retained Licence 4607 at this time (123,372 gross acres or 32,077 net acres).

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 acquired the Bostanci Licence 4985 on a 100 percent basis and is the operator but under a pre-bidding arrangement, Oando Energy Resources Inc. ("Oando") had a right to a 50 percent participating interest. In June 2013 Oando relinquished this right, consistent with their announced corporate strategy to focus on Nigeria. The Company therefore continued to pursue other potential farm-in partners to fund an exploratory well prior to meet a mid-October 2013 spudding deadline. In July 2013, the Company completed a 20 kilometre, six-line 2D seismic program over the oil exploration prospect at Bostanci. The new seismic provided coverage up to the Syrian and northern Iraq borders in this area. The seismic interpretation was completed in late August and reviewed with several potential farm-in partners. However, the farm-out process was not successful and given the higher than expected exploration risk associated with drilling following the review of the new seismic. The Company therefore relinquished the licence prior to the spudding deadline and as a result, $3.9 million was charged to exploration and evaluation expense for 2013.

As at the date of this MD&A, the Company holds an interest in one exploration licence in the Anatolian Basin covering an area of 123,372 gross acres (32,077 net acres).

Outlook

The Company expects to execute a capital expenditure budget of up to $14 to 17 million (net) in Turkey in 2014, focused on natural gas development in the Thrace Basin, and contingent on the level of operating cash flow. The work program and budget aims to achieve the following key objectives in 2014, as outlined in the Company's January 9, 2014 operational update and 2014 guidance press release:

- Offset natural declines and achieve 5 to 10 percent annualized production growth from trailing quarter rates with a natural gas development program on the TBNG JV lands funded by available cash and operating cash flow, focussed primarily on exploiting tight gas reservoirs with horizontal and vertical wells completed with multi-stage fracs

- Expand the tight gas development area on the TBNG JV lands from the Tekirdag area to other areas in Osmanli and Hayrabolu, which are also covered with 3D seismic

- Test for the presence of a basin-centred gas accumulation on Valeura's 100 percent owned Banarli Licence, subject to obtaining a partner or other financing

The planned work program on the TBNG JV lands in 2014 includes up to 12 horizontal and vertical wells (gross) utilizing a single drilling rig. Of this total, up to eight new drill wells with multi-stage frac completions are planned targeting tight gas reservoirs in the Mezardere and Teslimkoy Formations and up to four wells targeting conventional shallow gas reservoirs. Up to an additional 13 well re-entry fracs (gross) are also planned, primarily targeting the Mezardere Formation.

To date in 2014, two horizontal wells BDT-2H and TDR-11H have been drilled in the Mezardere Formation. An additional 25 potential horizontal drilling locations in the Mezardere Formation have been identified within the Tekirdag field alone.

A key focus in 2014 will be to further improve capital efficiency, particularly through the reduction of drilling costs, building on analogue experience in North America and recent drilling efficiency improvements achieved by the operator on the TBNG JV lands.

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

Results of Operations

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Petroleum and natural gas sales	**$ 6,556**	$ 5,409	**$ 22,050**	$ 24,942
Royalties	**(867)**	(731)	**(2,906)**	(3,392)
Production costs	**(950)**	(1,073)	**(3,957)**	(4,254)
Operating netback[1]	**4,739**	3,605	**15,187**	17,296
Other income	**145**	459	**852**	780
General and administrative	**(1,104)**	(1,362)	**(5,794)**	(6,285)
Realized foreign exchange gain (loss)	**9**	(2)	**(27)**	25
Funds flow from operations[1]	**3,789**	2,700	**10,218**	11,816
Gain on asset disposition	**-**	-	**10**	171
Non-cash expenses				
Stock based compensation	**(665)**	(403)	**(1,696)**	(1,649)
Financing costs	**(169)**	(138)	**(569)**	(613)
Exploration and evaluation expense	**(7,407)**	(12,476)	**(13,327)**	(13,606)
Unrealized foreign exchange gain (loss)	**(210)**	148	**(1,873)**	75
Depletion and depreciation	**(2,635)**	(1,857)	**(8,395)**	(10,459)
Impairment	**(3,286)**	(2,476)	**(3,286)**	(3,364)
Deferred tax recovery (expense)	**743**	2,392	**1,400**	1,724
Net loss	**$ (9,840)**	$ (12,110)	**$ (17,518)**	$ (15,905)

Corporate Sales Volumes

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 30, 2012
Crude oil and NGLs (bbl/d)	**44**	61	**49**	63
Natural gas (Mcf/d)	**6,883**	5,682	**5,589**	7,206
Total (boe/d)	**1,191**	1,008	**980**	1,264
Turkey (boe/d)	**1,149**	944	**932**	1,199
Canada (boe/d)	**42**	64	**48**	65
Total (boe/d)	**1,191**	1,008	**980**	1,264

Approximately 95 percent of Valeura's total production is produced within Turkey, the majority of which is natural gas production in the Thrace Basin. Average sales volumes in Q4 2013 increased to 1,191 boe/d compared to 1,008 boe/d for the same period in 2012 reflecting the contribution from additional well re-entry fracs in the Thrace Basin of Turkey. Average sales volumes in 2013 decreased to 980 boe/d compared to 1,264 in 2012 due to natural declines, partially offset by natural gas production from workovers, new wells and fracs primarily in the tight gas sands in the Thrace Basin.

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

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

Corporate Operating Netbacks (per boe)

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 30, 2012
Petroleum and natural gas sales	**$ 59.83**	$ 58.37	**$ 61.66**	$ 53.93
Royalties	**(7.91)**	(7.89)	**(8.13)**	(7.33)
Production costs	**(8.67)**	(11.58)	**(11.06)**	(9.20)
Operating netback	**$ 43.25**	$ 38.90	**$ 42.47**	$ 37.40

Sales Volumes and Operating Income – Turkey Operations

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Natural gas (Mcf/d)	**6,812**	5,541	**5,494**	7,064
Crude oil (bbl/d)	**14**	20	**16**	21
Total (boe/d)	**1,149**	944	**932**	1,199
Operating income:				
Petroleum and natural gas sales	**$ 6,347**	$ 5,119	**$ 21,084**	$ 23,709
Royalties	**(860)**	(707)	**(2,843)**	(3,186)
Production costs	**(865)**	(871)	**(3,408)**	(3,441)
Operating income	**$ 4,622**	$ 3,541	**$ 14,833**	$ 17,082

Operating Netbacks (per boe) – Turkey Operations

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 30, 2012
Petroleum and natural gas sales	**$ 60.04**	$ 58.96	**$ 62.00**	$ 54.07
Royalties	**(8.14)**	(8.15)	**(8.36)**	(7.27)
Production costs	**(8.19)**	(10.04)	**(10.02)**	(7.85)
Operating netback (per boe)	**$ 43.71**	$ 40.77	**$ 43.62**	$ 38.95

Pricing Information

	Three months ended		Years ended	
Average benchmark prices	**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 30, 2012
Crude oil – Edmonton Light (per bbl)	**$ 86.28**	$ 83.99	**$ 92.92**	$ 86.10
AECO (per Mcf)	**3.69**	3.21	**3.18**	2.36
Natural gas – BOTAS (per Mcf)[1]	**TL 20.12**	TL 20.12	**TL 20.12**	TL 17.94
Natural gas – BOTAS (per Mcf)	**$ 10.44**	$ 11.12	**$ 10.89**	$ 9.97
Average exchange rate (CAD/TL)	**1.928**	1.809	**1.847**	1.799

[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 2013 AIF for further discussion.

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

	Three months ended		Years ended	
Valeura's average realized prices	**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Crude oil (per bbl)	**$ 78.23**	$ 77.89	**$ 82.05**	$ 79.75
Natural gas – Turkey (per Mcf)	**9.93**	9.70	**10.23**	8.90
Natural gas – consolidated (per Mcf)	**$ 9.86**	$ 9.54	**$ 10.11**	$ 8.77

The following table shows the percentage change in Valeura's realized prices for Q4 2013 and YTD 2013 compared with Q4 2012 and YTD 2012:

	Q4 2013	YTD 2013
Crude oil	1%	3%
Natural gas	3%	15%

Natural gas prices remain much stronger in Turkey when compared to Canada. With approximately 95 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 $10.44 per Mcf for Q4 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 joint venture 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 Q4 2013 of $9.93 per Mcf represents a five percent discount to the BOTAS benchmark price.

The Company's 2013 average realized natural gas price in Turkey increased by 15 percent to $10.23 per Mcf from $8.90 per Mcf in 2012 due an increase in the BOTAS benchmark price effective October 1, 2012 (10 percent increase). The weakening of the Turkish Lira against the Canadian Dollar during Q4 2013 slightly decreased the realized price in Canadian Dollars in Q4 2013 to $9.93 per Mcf compared to $10.13 in Q3 2013.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Crude oil and NGLs	**$ 311**	$ 424	**$ 1,431**	$ 1,810
Natural gas	**6,245**	4,985	**20,619**	23,132
Total revenues	**$ 6,556**	$ 5,409	**$ 22,050**	$ 24,942

The composition of petroleum and natural gas sales revenues for the year ended December 31, 2013 was approximately 93 percent natural gas and 7 percent crude oil and NGLs. Revenues in Q4 2013 increased in comparison to the same period in 2012 due to increased volumes from drilling and frac activity in 2013. Revenues decreased for the year ended December 31, 2013 when compared to the same period in 2012 due to lower volumes partially offset by higher natural gas prices in Turkey.

Royalties

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Royalties	**$ 867**	$ 731	**$ 2,906**	$ 3,392
Percentage of revenue	**13.2%**	13.5%	**13.2%**	13.6%

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

Royalties in Q4 2013 increased in comparison to the same period in 2012 as a result of higher production volumes and higher revenue. Royalties for the year ended December 31, 2013 decreased in comparison to the same period in 2012 due to lower production volumes, partially offset by higher prices. Revenues in Turkey are subject to a 12.5 percent government royalty and certain overriding royalties.

Production Costs

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Production costs	**$ 950**	$ 1,073	**$ 3,957**	$ 4,254
$ per boe	**8.67**	11.58	**11.06**	9.20

Unit production costs in Q4 2013 decreased to $8.67/boe compared to $11.58/boe for the same period in 2012 as a result of operations becoming more efficient and a reduction in overhead costs. Unit production costs for the year ended December 31, 2013 were $11.06/boe compared to $9.82/boe for the same period in 2012 due primarily to lower production volumes. Natural gas production costs in Turkey were $1.24 per Mcf for Q4 2013.

General and Administrative Expenses

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
General and administrative	**$ 1,180**	$ 1,394	**$ 6,084**	$ 6,433
Business development	**119**	97	**521**	543
Total gross general and administrative	**1,299**	1,491	**6,605**	6,976
Recoveries	**(195)**	(129)	**(811)**	(691)
Total general and administrative expenses	**$ 1,104**	$ 1,362	**$ 5,794**	$ 6,285

Total general and administrative ("G&A") expenses for Q4 2013 and the year ended December 31, 2013 decreased by 19 percent and 8 percent, respectively, when compared to the same periods in 2012. The decrease is due to lower overall office expenses, business development costs and travel costs.

Foreign Exchange

During Q4 2013 and the year ended December 31, 2013, the Company realized a foreign exchange loss of $0.2 million and $1.9 million, respectively, compared to a foreign exchange loss of $0.1 million and $0.1 million for the same periods in 2012. The increased foreign exchange losses in 2013 were due to the weakening of the Turkish Lira against the Canadian and United States Dollar.

The functional currency for the Company's Turkish operations is the Turkish Lira 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 Q4 2013 and the year ended December 31, 2013, the Company recorded other income of $145,000 and $852,000 respectively, compared to $459,000 and $780,000 for the same periods in 2012. Other income is comprised of processing fee income and interest income related to cash on hand. The increase in 2013 is the result of processing more third party gas when compared to 2012.

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

Funds Flow from Operations[1]

Funds flow from operations for Q4 2013 and the year ended December 31, 2013 was $3.8 million and $10.2 million, respectively, compared to $2.7 million and $11.8 million for the same periods in 2012. The increase in funds flow from operations for Q4 2013 was due to higher production volumes and higher natural gas price realizations in Turkey. The decrease in funds flow from operations for the year ended December 31, 2013 was the result of lower production volumes, partially offset by higher natural gas price realizations 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 Q4 2013 and the year ended December 31, 2013 was $0.7 million and $1.7 million, respectively, compared to $0.4 million and $1.6 million for the same periods in 2012. The increase in 2013 can be attributed to the cancellation of stock options in Q4 2013 and the immediate recognition of the remaining $0.4 million of share-based compensation expense associated with these options, partially offset by a lower weighted average expense per award when compared to 2012.

Financing costs

	Three months ended		**Years ended**	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Accretion of decommissioning obligations	**$ 169**	$ 138	**$ 569**	$ 613

Accretion of decommissioning obligations for the year ended December 31, 2013 decreased in comparison to the same period in 2012 due to 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 for Q4 2013 and the year ended December 31, 2013 was $7.4 million and $13.3 million, respectively, compared to $12.5 million and $13.6 million, for the same periods in 2012. E&E expense for 2013 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.

Depletion and Depreciation

Depletion and depreciation for Q4 2013 and the year ended December 31, 2013 was $2.6 million and $8.4 million, respectively, compared to $1.9 million and $10.5 million for the same periods in 2012. For Q4 2013 depletion and depreciation was higher when compared to the same period in 2012 due to higher total production volumes. For the year ended December 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 Q4 2013 and the year ended December 31, 2013 was $24.05/boe and $23.47/boe, respectively, compared to $20.02/boe and $22.61/boe for the same periods in 2012.

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

Impairment

Impairment for Q4 2013 and the year ended December 31, 2013 was $3.3 million and $3.3 million respectively, compared to $2.5 million and $3.4 million for the same periods in 2012. Impairment for 2013 consists of a $3.0 million reduction in fair value to Canadian assets and a $0.3 million reduction in fair value to Edirne assets. Impairment for 2013 is the result of the carrying values exceeding fair values less costs to sell for both Canadian and Edirne assets. Impairment for 2012 related to a reduction in the fair value of Canadian assets as a result of decreased Canadian natural gas prices.

Deferred Tax

Deferred tax for Q4 2013 and the year ended December 31, 2013 was a recovery of $0.7 million and $1.4 million, respectively, compared to a recovery of $2.4 million and $1.7 million for the same periods 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 Q4 2013 and the year ended December 31, 2013 was a loss of $0.5 million and $5.9 million, respectively, compared to a gain of $1.1 million and $1.8 million for the same periods 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 losses in 2013 were due to the weakening of the Turkish Lira against the Canadian dollar.

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

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Years ended	
Turkey	**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Geological and geophysical	**$ 2,757**	$ 664	**$ 8,583**	$ 3,611
Land	**-**	-	**-**	1,554
Drilling and completions	**1,171**	4,561	**13,147**	20,574
Equipping	**43**	95	**805**	478
Recompletions and fracs	**1,802**	901	**4,343**	4,904
Other	**3**	-	**41**	2
Turkey total	**5,776**	6,221	**26,919**	31,123
Canada total	**4**	10	**54**	132
Consolidated total	**$ 5,780**	$ 6,231	**$ 26,973**	$ 31,255

Turkey

Capital spending for 2013 in Turkey was $26.9 million, including $8.6 million for geological and geophysical operations (primarily seismic), $13.1 million for drilling and completions and $4.3 million for recompletions and fracs.

The Company spudded a total of seven (2.8 net) natural gas wells on the TBNG-PTI joint venture lands in 2013. Of the seven gross wells spudded, five wells have been completed and put on production and two wells are in various stages of completion.

A total of 33 gross (13.2 net) fracs and 14 gross (5.6 net) workovers were completed on TBNG-PTI joint venture lands in 2013. A total of six gross (2.1 net) workovers were completed on the Edirne Licence in 2013.

During Q4 2013, the Company drilled and completed a third horizontal well BTD-5H in the Tekirdag area on TBNG-PTI joint venture lands. The well was drilled to a vertical depth of 975 metres into the Teslimkoy Formation with a horizontal section of 403 metres and was completed with a three-stage frac. The well was tied into the gathering system at the end of December 2013 and over the first 30 days since tie-in, the well has flowed at an average restricted rate of approximately 2.0 MMcf/d (gross) through a 30/64" choke.

During Q4 2013, the Company participated in a new 232 square kilometer 3D seismic survey in the Osmanli area on TBNG joint venture lands at a final expected cost of $2.3 million (net). The acquisition phase was completed at the end of December 2013 and processing and interpretation is underway. This increases the 3D seismic coverage on the TBNG-PTI joint venture lands to almost 650 square kilometres.

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.

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

Share Capital

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

2012 Share Capital Transactions

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 six percent of the gross proceeds raised. Total share issuance costs, including fees, legal costs and other expenses were $1.2 million.

2013 Financing

As at December 31, 2013 the common shares outstanding are shown below:

	December 31, 2013
Common shares	57,906,135
Share purchase warrants	13,269,217
Stock options	1,847,250
Performance warrants	2,796,750
Diluted	75,819,352

As of the date of this MD&A, Valeura has 57,906,135 common shares outstanding. In addition, Valeura has 1,847,250 outstanding options, 2,796,750 performance warrants, and 13,269,217 share purchase warrants to purchase common shares. Assuming the exercise of all options and warrants, Valeura would have 75,819,352 common shares outstanding on a diluted basis.

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.

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

Liquidity, Financing and Capital Resources

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Opening cash position	**$ 9,850**	$ 15,579	**$ 29,031**	$ 24,107
Inflow of funds				
Issuance of shares – net of share Issue costs	**-**	13,719	**-**	13,719
Proceeds on asset disposition	**-**	-	**10**	189
Funds from operations	**3,789**	2,700	**10,218**	11,816
	3,789	16,419	**10,228**	25,724
Outflow of funds				
Capital expenditures	**(5,780)**	(6,231)	**(26,973)**	(31,255)
Stock options cancelled	**(15)**	-	**(15)**	-
Decommissioning costs incurred	**(133)**	(28)	**(218)**	(41)
Changes in working capital and foreign exchange on cash	**(1,200)**	3,292	**(5,542)**	10,496
	(7,128)	(2,967)	**(32,748)**	(20,800)
Closing cash position	**$ 6,511**	$ 29,031	**$ 6,511**	$ 29,031

Capital Funding and Resources

As at December 31, 2013, Valeura's working capital balance was $6.8 million including a cash and cash equivalents position of $6.5 million.

The Company's cash position and funds flow from operations were the primary sources of capital for exploration and development expenditures in 2013. Valeura's opening cash position in 2013 was $29.0 million. In 2013 the Company utilized this opening cash balance and funds flow from operations of $10.2 million to fund an exploration and development capital program of $27.0 million. The resultant cash and cash equivalents balance at December 31, 2013 was $6.5 million also reflecting other negative changes in working capital totaling $5.8 million, including foreign exchange on cash and incurred decommissioning costs.

Financial Capacity

At the end of Q4 2013 the Company's working capital surplus was $6.8 million. The combination of this working capital surplus plus estimated funds flow from operations of $12.0 to $14.0 million in the 2014 work program and budget forecast is expected to be sufficient to fund the Company's target capital program in 2014 of $14.0 to $17.0 million. The Company has considerable flexibility in managing capital given the terms of licence agreements and joint venture operating agreements in Turkey.

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 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.

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

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

Use of Proceeds

As at the date of this MD&A, the Company has fully utilized the proceeds from the October 10, 2012 public offering. In the short form prospectus dated October 2, 2012, the use of proceeds included a down-spacing program of eight to 14 vertical wells (gross) focusing on medium-depth tight gas development in the Tekirdag area of the Thrace Basin in Turkey with an estimated cost of $8.0 to $14.0 million, subject to achieving success with the 2012 drilling and fracing program. The subsequent capital program in 2013 was tailored to advance horizontal drilling with multi-stage frac completions in the tight gas development program in the Tekirdag area. The number of wells drilled (7.0 gross) was less than planned, however, due to the increased complexity of the drilling and completions, including three horizontal wells with multi-stage fracs, the individual cost of the wells were higher than stated in the public offering prospectus.

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

Selected Quarterly Information

		Three months ended		
	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total daily production (boe/d)	1,191	1,011	862	851
Average wellhead price ($/boe)	$ 59.83	$ 61.79	$ 62.45	$ 63.31
Petroleum and natural gas sales	6,556	5,749	4,897	4,848
Funds from operations	3,789	3,067	1,775	1,587
$ per share (basic and diluted)[1]	0.07	0.05	0.03	0.03
Net loss	(9,840)	(4,632)	(2,228)	(818)
$ per share (basic and diluted)[1]	(0.17)	(0.08)	(0.04)	(0.01)

		Three months ended		
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Total daily production (boe/d)	1,008	1,140	1,340	1,572
Average wellhead price ($/boe)	$ 58.37	$ 55.88	$ 56.28	$ 47.62
Petroleum and natural gas sales	5,409	5,859	6,864	6,810
Funds from operations	2,700	2,803	3,373	2,939
$ per share (basic and diluted)[1]	0.05	0.06	0.07	0.06
Net loss	(12,110)	(702)	(752)	(2,340)
$ per share (basic and diluted)[1]	(0.21)	(0.02)	(0.02)	(0.05)

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

- Revenue is directly impacted by the Company's ability to offset natural production declines with production additions from an on-going capital expenditure program.
- Valeura is benefiting from natural gas prices and netbacks in Turkey which are more than three times higher than in Canada.
- With significant drilling and production operations in Turkey, the Company has a high level of foreign exchange and currency translation exposure. Capital and operating expenditures in Turkey are denominated in US Dollars and Turkish Lira and gas prices are denominated in Turkish Lira resulting in currency exposure on a consolidated basis. The foreign exchange loss in Q4 2013 was $0.2 million while the currency translation adjustment recorded in AOCI was a loss of $0.5 million. The currency translation loss in Q4 2013 is the result of the weakening of the Turkish Lira against the Canadian Dollar.

Fourth Quarter Review

During Q4 2013, production volumes increased to 1,191 boe/d from prior quarters in 2013 as a result of additional well re-entry fracs in the Mezardere Formation in the Thrace Basin of Turkey. This resulted in funds flow from operations of $3.8 million for the quarter. The Company spent $5.8 million on exploration and development capital which was funded by the funds flow from operations along with the existing cash position. Net loss in Q4 2013 of $9.8 million was incurred upon recognition of $7.4 million of E&E expense, $3.3 million of impairment

[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)

expense reflecting a write down on the Canadian and Edirne assets, $0.7 million of share based compensation expense and $2.6 million of depletion and depreciation expense.

Segmented Information

	Three months ended		Years ended	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 30, 2012
Petroleum and natural gas revenue				
Canada	**$ 209**	$ 290	**$ 966**	$ 1,233
Turkey	**6,347**	5,119	**21,084**	23,709
	6,556	5,409	**22,050**	24,942
Net income (loss)				
Canada	**(7,480)**	(4,235)	**(12,043)**	(10,587)
Turkey	**(2,360)**	(7,875)	**(5,475)**	(5,318)
	(9,840)	(12,110)	**(17,518)**	(15,905)
Capital expenditures				
Canada	**4**	10	**54**	132
Turkey	**5,776**	6,221	**26,919**	31,123
	$ 5,780	$ 6,231	**26,973**	31,255
Total assets				
Canada			**7,728**	25,912
Turkey			**89,545**	99,799
			$ 97,273	$ 125,711

Commitments and Contractual Obligations

On October 26, 2012, Valeura entered into a two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1.0 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.9 as at December 31, 2013.

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.

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

Selected Annual Information

			Years Ended
	December 31, 2013	December 31, 2012	December 31, 2011
Petroleum and natural gas sales	$ 22,050	$ 24,942	$ 16,725
Cash provided by operations	12,007	9,837	300
Funds flow from operations	10,218	11,816	2,520
$ per share (basic and diluted)	0.18	0.24	0.07
Net loss	(17,518)	(15,905)	(15,776)
$ per share (basic and diluted)	$ (0.30)	$ (0.32)	$ (0.45)
Daily production (boe/d)	980	1,264	1,091
Sales price ($/boe)	$ 61.66	$ 53.93	$ 42.01
Total assets	97,273	125,711	120,702
Total long term liabilities	13,633	16,298	15,750
Net working capital (deficiency)	$ 6,834	$ 24,257	$ 29,419

- The decrease in petroleum and natural gas sales in 2013 compared to 2012 is due to lower volumes for the first nine months of 2013, partially offset by an increase in Q4 2013 natural gas production from workovers, new wells and fracs primarily in the Thrace Basin. Production volumes have been growing in Turkey since the low experienced in Q1 2013. The increase from 2011 to 2012 was due to the acquisition of the TBNG-PTI assets in 2011.
- The decrease in funds flow from operations in 2013 is the result of lower production volumes. The increase from 2011 to 2012 was due to the acquisition of production and related funds flow from operations in Turkey.
- The increase in net loss in 2013 is the result of lower petroleum and natural gas sales and increased foreign exchange losses due to the weakening of the Turkish Lira against the Canadian and United States Dollar.
- The decrease in total assets in 2013 is due to a reduction in cash and cash equivalents. The increase in total assets from 2011 to 2012 was due to continued exploration and development expenditures on petroleum and natural gas assets in Turkey and increased cash and cash equivalents.
- The fluctuation in total long term liabilities over the three-year period relates to changes in deferred taxes and decommissioning obligations.
- The decrease in net working capital over the three-year period is the result of continued capital spending in Turkey and the absence of any financing in 2013.

New Accounting Pronouncements and Critical Accounting Policies

Use of estimates and judgments

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

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

Critical judgments in applying accounting policies:

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

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

Key sources of estimation uncertainty:

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

- Estimation of recoverable quantities of 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.
- 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.

Recent accounting standards and interpretations issues 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.

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 President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the officers concluded that Valeura's DC&P were effective as at December 31, 2013.

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

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2013, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2013 and concluded that as of December 31, 2013, Valeura maintained effective ICFR.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

There were no changes to Valeura's ICFR during the year ended December 31, 2013 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at December 31, 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.

The reader is referred to Valeura's 2013 AIF for a more complete description of business risks and uncertainties.

Political Risks

During Q2 2013 Turkey experienced a period of political unrest and civil disobedience which had diminished in its intensity during the second half of 2013. However, in late 2013 and early 2014, further political unrest has occurred. This has resulted in a sharp devaluation of the Turkish Lira, which has negatively impacted the Company's revenues from Turkey. These events have not impacted the Company's ability to conduct drilling and production operations and no delays or security issues have been experienced.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/United States dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar had increased materially in value against the United States dollar although the Canadian dollar has recently decreased from such levels. The Company's drilling operations in Turkey and related contracts are based in US Dollars. Material increases in the value of the US dollar will negatively impact the Company's costs of drilling and completions activity. Future Canadian/United States and Canadian/Turkish Lira exchange rates could impact the future value of the Company's reserves as determined by independent evaluators. The Company's functional currency in its subsidiary operations in Turkey is the Turkish Lira. The revenue stream in Turkey is based on Turkish Lira revenue for natural gas and US dollar based revenue for crude oil translated into Turkish Lira. The majority of costs will be incurred in US Dollars and Turkish Lira. Decreases in the value of the Turkish Lira could result in decreases in revenue. Increases in the value of the Turkish Lira and US Dollars could result in increases in the cost of operations. To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. Valeura continues to assess its exposure to all foreign currencies. The Company is in the process of specifically assessing its exposure to the Turkish Lira and any possibilities that may exist to mitigate such exposure. Recent volatility and weakness in the value of the Turkish Lira may impair the ability of the Company to manage this exposure. Continued devaluation of the Turkish Lira without a corresponding increase in the natural gas reference price will result in continued decreases in funds flow from operations and will affect the ability of the Company to fund its' capital program in the future.

Foreign Operations

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

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

Prices, Markets and Marketing

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

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

Volatility of Commodity Prices

Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect oil prices include the actions of OPEC, world economic conditions, government regulation, political stability throughout the world, the availability of alternative fuel sources and weather conditions. World oil prices are quoted in United States dollars and the price received by the Company is affected by the Canadian/US dollar exchange rate, which will fluctuate over time. Natural gas prices in Canada and internationally are affected by supply and demand, weather conditions and by prices of alternative sources of energy. Turkish natural gas prices are quoted in Turkish Lira and the price received by the Company is affected by the Canadian Dollar/Turkish Lira exchange rate, which fluctuates over time. Material increases in the value of the Canadian dollar may negatively impact production revenues. Such increases may also negatively impact the future value of reserves as determined by independent evaluators. In recent years, the Canadian Dollar had increased materially in value against the United States dollar but has declined in 2013. In recent months, the Canadian Dollar has appreciated in value against the Turkish Lira.

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

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

Capital Requirements

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

Third Party Credit Risk

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

Exploration, Development and Production

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

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

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

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

Uncertainty of Reserve Estimates

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

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

Environment, Health and Safety

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

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

Management of Growth

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

Insurance

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