valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2014 and 2013

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of August 13, 2014 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and six month periods ended June 30, 2014 and 2013. 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 unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2013 audited consolidated financial statements, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted in the interim statements. The unaudited condensed interim financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2013.

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 issuers. The closest GAAP measure to operating netback and funds flow from operations is net income (loss) – see the reconciliation of these non-GAAP financial measures to net income (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		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Cash provided by operating activities	**3,765**	1,556	**3,954**	4,507
Decommissioning costs incurred	**-**	8	**15**	33
Change in non-cash working capital	**(332)**	211	**3,208**	(1,178)
Funds flow from operations	**3,433**	1,775	**7,177**	3,362

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 2014 work program and budget; operational plans and costs (drilling, fracking and workovers) for the tight gas and shallow gas development programs in the Thrace Basin; the availability of operating cash flow and the ability to finance development; the planned drilling of horizontal and vertical wells, well re-entry fracs and well recompletion workovers and the expected impact thereof; the timing, estimated costs and ability to fund each of the foregoing; the plans to attract a joint venture partner to drill the deep, potential basin-centered gas play on the Banarli Licence 5104; the potential plans to drill a commitment well on the Banarli Licence 5104 under the current licencing terms, and the costs and timing thereof; the ability to convert the Banarli Licence 5104 under the new licencing regime in Turkey and thereby defer the drilling commitment timing; the planned sale of all of the Canadian assets in 2014; and the outlook for production volumes and funds flow from operations in 2014.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: the ability of the Company to execute its strategy; the ability of the Company to obtain financing on acceptable terms; future drilling, fracking and re-completion activity; the anticipated tight gas development program in the Thrace Basin and the ability to finance future development; the ability to meet drilling deadlines and other requirements under licences and leases (including spudding deadlines under the Company's 100 percent owned Licences 5104 and 5147); the ability to attract partners and negotiate farm-out arrangements, in particular on the Banarli Licence 5104; the ability to sell all of the Canadian assets in 2014; 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 fracking 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); uncertainty regarding converting licences under the GDPA's new licencing regime and negotiations with other licence holders; uncertainty regarding the amount of operating cash flow; the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues, terrorist attacks, insurgencies or civil unrest; the risks of increased costs and delays in timing related to protecting the safety and security of Valeura's personnel and property; the risk of commodity and 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, per share or per unit amounts)

Highlights and Selected Financial Information

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Financial				
Petroleum and natural gas sales	**$ 6,359**	$ 4,897	**$ 13,255**	$ 9,745
Net income (loss)	**462**	(2,228)	**792**	(3,046)
Per share, basic and diluted	**0.01**	(0.04)	**0.01**	(0.05)
Funds flow from operations[1]	**3,433**	1,775	**7,177**	3,362
Per share, basic and diluted	**$ 0.06**	$ 0.03	**$ 0.12**	$ 0.06
Production volumes				
Crude oil and NGL's (bbl/d)	**37**	48	**38**	51
Natural gas (Mcf/d)	**6,775**	4,882	**7,223**	4,835
Total (boe/d)	**1,166**	862	**1,241**	856
Sales prices				
Crude oil (per bbl)	**$ 87.98**	$ 80.55	**$ 83.53**	$ 77.54
Natural gas (per Mcf)	**9.84**	10.24	**9.71**	10.33
Total (per boe)	**59.92**	62.45	**59.00**	62.87
Capital expenditures	**$ 1,504**	$ 6,303	**$ 5,450**	$ 12,748
Net working capital surplus			**8,866**	14,735
Cash and cash equivalents			**5,608**	16,743
Weighted average shares outstanding Basic and diluted (thousands)	**57,906**	57,906	**57,906**	57,906

Outstanding Share Data

	June 30, 2014
Common shares	57,906,135
Warrants ($5.50 exercise price per share)	13,269,217
Stock options ($0.92 weighted average exercise price per share)	3,434,250
Performance warrants ($5.50 weighted average exercise price per share)	2,796,750
Diluted	77,406,352

[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 in Turkey. As at June 30, 2014, the Company held an interest in approximately 1.0 million gross acres (0.43 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 (0.40 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 and is contributing more than 50 percent of the Company's production in the Thrace Basin. The assets in the Anatolian Basin as at June 30, 2014 included one exploration licence with oil potential.

Turkish Operations

Thrace Basin

Edirne Asset Acquisition

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

The Edirne Licence covers an area of 119,125 gross acres (41,694 net acres). 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") (the "TBNG JV") (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 JV lands are operated by TransAtlantic.

This acquisition provided cash flow to the Company from sales of shallow gas production in the Thrace Basin, interests in 624,361 gross acres of onshore and offshore land (220,617 net) as at June 30, 2014, and exposure to a potentially significant unconventional tight gas opportunity in the Thrace Basin.

The TBNG JV lands currently 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 JV lands, all located onshore. Approximately 50 percent of the natural gas produced in the first half of 2014 was shallow gas from sandstone reservoirs in the Danismen and Osmancik formations at a depth of 500 to 1,500 metres. The gas is processed and compressed in owned facilities and is distributed in an owned pipeline network directly to more than 50 commercial and end-user customers. TransAtlantic 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 fracking new medium-depth and deep wells as part of a proof-of-concept tight gas exploitation program. The Company completed 53 well re-entry fracs (including 11 multi-stage fracs) and 17 new drill fracs (including 10 multi-stage fracs) during the period from July 1, 2011 to June 30, 2014. Natural gas production from tight gas sands in these fracked wells contributed approximately 50 percent of the natural production from the TBNG JV lands in the first half of 2014, and this contribution is growing.

Other Acquisitions and New Licence Awards

On January 16, 2012, Valeura closed the acquisition of a 24 percent non-operated working interest held by Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") in three exploration licences (3998, 3999 and 4187) in the Thrace Basin operated by Merty Energy for consideration of US$1.5 million. The Company participated in the acquisition of 186 kilometres of new 2D seismic on Licence 3999 in the third quarter of 2012 and spudded the Kavacik-1 well on this licence which was dry and abandoned. Valeura and its partners agreed to let all three licences expire under the existing arrangements over the October 2012 to January 2013 period. The Company re-applied for Licence 3999 and 4187 with a 100 percent working interest. In July 2013, Valeura was awarded 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 and has a four-year initial term. The Company shot 93 kilometres of new 2D seismic in June 2013 to complement more than 300 kilometres of vintage 2D seismic on this licence.

In 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 June 30, 2014.

Anatolian Basin

Karakilise

In February 2014, Valeura sold its 27.5 percent interest in the 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 JV acquisition described above also included a 26 percent non-operated working interest in lands in the Gaziantep area in the Anatolian Basin. The lands acquired 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).

Outlook

The Company expects to execute a capital expenditure program and budget of up to $14 to $16 million (net) in Turkey in 2014, including up to $9 to $11 million in the second half of 2014, focused on natural gas development in the Thrace Basin, and contingent on the level of operating cash flow. This total capital expenditure outlook for 2014 is back-end loaded reflecting the majority of the drilling in the second half of 2014. After drilling two wells in the first quarter of 2014 and pausing for just under five months to firm-up the drilling inventory to facilitate a continuous, more cost effective drilling and completion program on the TBNG JV lands, drilling re-started on July 28.

The planned work program on the TBNG JV lands in 2014 is currently expected to include up to 11 horizontal and vertical wells (gross) utilizing a single drilling rig, including seven firm and four contingent locations. Of this total, up to five horizontal wells with multi-stage frac completions are planned targeting tight gas reservoirs in the Mezardere and Teslimkoy Formations and up to six vertical wells are planned targeting conventional gas reservoirs in the Osmanli area on new 3D seismic. The average projected cost to drill and frac the upcoming horizontal wells is approximately US$2.5 million per well (gross). The average cost to drill and complete the conventional vertical wells in the Osmanli area is approximately US$1.0 million per well (gross).

Up to eight well re-entry fracs (gross) are also planned in 2014, primarily targeting the Mezardere Formation, and up to 18 recompletion workovers (gross) in shallow gas formations.

To the end of the second quarter of 2014, the Company had completed two horizontal wells BTD-2H and TDR-11H, fracs on four new wells (including the BTD-2H and TDR-11H wells and two vertical wells drilled in 2013), four re-entry fracs and 12 recompletion workovers. Subsequent to the end of the quarter, a horizontal well TDR-5H was spudded on July 28, 2014 and drilled in 12 days to a vertical depth of 992 metres into the Teslimkoy Formation with a horizontal section of 569 metres. The well achieved a record rate of penetration for the horizontal wells drilled to date. It is expected that the well will be completed by the end of August with an 8-stage frac. Upon rig release from the TDR-5H well, the drilling rig is expected to move to the first of the Osmanli area exploration wells.

The Company continued to make progress with the GDPA and offsetting licence holders to convert the 100 percent owned and operated Banarli Licence 5104 to the new licencing regime adopted by the Turkish government in May 2013. Voluntary conversion of existing licences to the new regime is encouraged, where possible, and would require re-alignment of the licence boundaries and negotiation with offset licence holders to fit a new grid system.

Agreements have been reached with the offset licence holders TBNG JV and Turkiye Petrolleri Anonim Ortakligi ("TPAO") to facilitate the conversion and the GDPA has been so advised. If such a conversion is approved by the GDPA, the immediate effect may be to lengthen the initial term of the licence to five years and re-start the clock on the drilling commitment timing, thereby delaying the required spud date to late 2014 or early 2015, depending on the timing of approval of the conversion. There is no certainty that such a conversion can be achieved and timing remains uncertain. (See the 2013 AIF for a detailed description of the old and new licencing terms in Turkey).

Given the continued uncertainty associated with converting the Banarli Licence to the new licencing regime, the Company is planning to spud a licence-retention exploration well in the fourth quarter of 2014 under the current licencing terms, targeting the Osmancik Formation at a depth of approximately 2,000 metres. The planned location is near the southern boundary of the Banarli Licence, which is contiguous with the TBNG JV lands. The cost to drill and complete such a well is expected to be approximately US$1.2 million (net) and is included in the Company's budget for 2014.

The Company will continue to seek a joint venture partner to participate in funding a deep exploration drilling program on the Banarli Licence, targeting a potential basin-centered gas play below 3,000 metres. The potential conversion of the Banarli Licence to the new licensing regime in Turkey may facilitate this process.

The Company is also actively pursuing the sale of the small, non-strategic assets in Canada. A small property at Carmangay was sold in the second quarter of 2014 and the Company is targeting the sale of the remaining assets later in 2014.

The Company now expects 2014 corporate production volumes to average 1,050 to 1,100 boe/d, approximately seven to 12 percent higher than the average production in 2013, reflecting a shift in the majority of the drilling in Turkey to the second half of 2014 and the potential sale of all of the Canadian assets. Production volumes in Turkey in 2014 are expected to average 1,030 to 1,080 boe/d, approximately 10 to 16 percent higher than the average production in Turkey in 2013.

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

Results of Operations

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Petroleum and natural gas sales	**$ 6,359**	$ 4,897	**$ 13,255**	$ 9,745
Royalties	**(860)**	(638)	**(1,770)**	(1,272)
Production costs	**(754)**	(1,031)	**(1,494)**	(2,218)
Operating netback[1]	**4,745**	3,228	**9,991**	6,255
Other income	**122**	219	**247**	493
General and administrative	**(1,251)**	(1,653)	**(2,756)**	(3,376)
Realized foreign exchange gain (loss)	**(183)**	(19)	**(305)**	(10)
Funds flow from operations[1]	**3,433**	1,775	**7,177**	3,362
Gain on asset disposition	**75**	-	**75**	-
Non-cash expenses				
Stock based compensation	**(157)**	(383)	**(300)**	(740)
Financing costs	**(163)**	(137)	**(322)**	(278)
Exploration and evaluation expense	**(12)**	(1,417)	**(52)**	(1,427)
Unrealized foreign exchange gain (loss)	**221**	(468)	**416**	(351)
Depletion and depreciation	**(2,484)**	(1,776)	**(5,382)**	(3,587)
Deferred tax recovery (expense)	**(451)**	178	**(820)**	(25)
Net Income (loss)	**$ 462**	$ (2,228)	**$ 792**	$ (3,046)

Corporate Sales Volumes

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Crude oil and NGLs (bbl/d)	**37**	48	**38**	51
Natural gas (Mcf/d)	**6,775**	4,882	**7,223**	4,835
Total (boe/d)	**1,166**	862	**1,241**	856
Turkey (boe/d)	**1,123**	815	**1,198**	803
Canada (boe/d)	**43**	47	**43**	53
Total (boe/d)	**1,166**	862	**1,241**	856

Approximately 96 percent of Valeura's total production is produced within Turkey, the majority of which is natural gas production in the Thrace Basin. Corporate sales volumes for the three and six months ended June 30, 2014 increased to 1,166 boe/d and 1,241 boe/d, respectively, compared to 862 boe/d and 856 boe/d for the same periods in 2013 reflecting the contribution of 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, per share or per unit amounts)

Corporate Operating Netbacks ($ per boe)

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Petroleum and natural gas sales	**$ 59.92**	$ 62.45	**$ 59.00**	$ 62.87
Royalties	**(8.11)**	(8.14)	**(7.88)**	(8.21)
Production costs	**(7.11)**	(13.15)	**(6.65)**	(14.31)
Operating netback	**$ 44.70**	$ 41.16	**$ 44.47**	$ 40.35

Sales Volumes and Operating Income – Turkey Operations

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Natural gas (Mcf/d)	**6,693**	4,784	**7,147**	4,715
Crude oil (bbl/d)	**8**	17	**7**	17
Total (boe/d)	**1,123**	815	**1,198**	803
Operating income:				
Petroleum and natural gas sales	**$ 6,097**	$ 4,664	**$ 12,747**	$ 9,272
Royalties	**(824)**	(628)	**(1,723)**	(1,246)
Production costs	**(678)**	(862)	**(1,289)**	(1,881)
Operating income	**$ 4,595**	$ 3,174	**$ 9,735**	$ 6,145

Operating Netbacks ($ per boe) – Turkey Operations

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Petroleum and natural gas sales	**$ 59.65**	$ 62.92	**$ 58.77**	$ 63.79
Royalties	**(8.07)**	(8.47)	**(7.94)**	(8.57)
Production costs	**(6.63)**	(11.63)	**(5.94)**	(12.94)
Operating netback	**$ 44.95**	$ 42.82	**$ 44.89**	$ 42.28

Pricing Information

	Three months ended		Six months ended	
Average benchmark prices	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Crude oil – Edmonton Light (per bbl)	**$ 104.51**	$ 92.55	**$ 102.12**	$ 90.36
AECO (per Mcf)	**4.68**	3.47	**4.72**	3.37
Natural gas – BOTAS (per Mcf)[1]	**TL 20.12**	TL 20.12	**TL 20.12**	TL 20.12
Natural gas – BOTAS (per Mcf)	**$ 10.40**	$ 11.21	**$ 10.21**	$ 11.29
Average exchange rate (CAD/TL)	**1.935**	1.795	**1.971**	1.782

[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, per share or per unit amounts)

	Three months ended		Six months ended	
Valeura's average realized prices	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Crude oil (per bbl)	**$ 87.98**	$ 80.55	**$ 83.53**	$ 77.54
Natural gas – Turkey (per Mcf)	**9.91**	10.37	**9.77**	10.51
Natural gas – consolidated (per Mcf)	**$ 9.84**	$ 10.24	**$ 9.71**	$ 10.33

The following table shows the percentage change in Valeura's realized prices for Q2 2014 and YTD 2014 compared to the same periods in 2013:

	Q2 2014	**YTD 2014**
Crude oil	9%	8%
Natural gas	-4%	-6%

Natural gas prices remain much stronger in Turkey when compared to Canada. With approximately 96 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 $10.40 per Mcf for Q2 2014. 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 JV 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 Q2 2014 of $9.91 per Mcf represents a five percent discount to the BOTAS benchmark price.

The Company's Q2 2014 average realized natural gas price in Turkey decreased by four percent to $9.91 per Mcf from $10.37 per Mcf in Q2 2013 due to the weakening of the Turkish Lira against the Canadian Dollar.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Crude oil and NGLs	**$ 291**	$ 350	**$ 557**	$ 705
Natural gas	**6,068**	4,547	**12,698**	9,040
Total revenues	**$ 6,359**	$ 4,897	**$ 13,255**	$ 9,745

The composition of petroleum and natural gas sales revenues for the three and six months ended June 30, 2014 was approximately 95 percent natural gas and five percent crude oil and NGLs. The increase in 2014 revenues are due primarily to increased volumes from drilling and fracking activity in tight gas formations, partially offset by lower realized natural gas prices in Turkey.

Royalties

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Royalties	**$ 860**	$ 638	**$ 1,770**	$ 1,272
Percentage of revenue	**13.5%**	13.0%	**13.4%**	13.1%

Royalties for the three and six months ended June 30, 2014 increased in comparison to the same periods in 2013 as a result of higher production volumes and higher revenue. Revenues in Turkey are subject to a 12.5 percent government royalty and certain overriding royalties.

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

Production Costs

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Production costs	**$ 754**	$ 1,031	**$ 1,494**	$ 2,218
$ per boe	**7.11**	13.15	**6.65**	14.31

Unit production costs for the three and six months ended June 30, 2014 decreased to $7.11/boe and $6.65/boe, respectively, compared to $13.15/boe and $14.31/boe for the same periods in 2013 as a result of increased operational efficiency, lower overhead costs and increased production volumes. Natural gas production costs in Turkey were $1.10 per Mcf for Q2 2014.

General and Administrative Expenses

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
General and administrative	**$ 1,401**	$ 1,652	**$ 3,094**	$ 3,504
Business development	**26**	168	**90**	321
Total gross general and administrative	**1,427**	1,820	**3,184**	3,825
Recoveries	**(176)**	(167)	**(428)**	(449)
Total general and administrative expenses	**$ 1,251**	$ 1,653	**$ 2,756**	$ 3,376

Total general and administrative ("G&A") expenses for the three and six months ended June 30, 2014 decreased by 24 percent and 18 percent, respectively, when compared to the same periods in 2013. The decrease is due to lower overall office expenses, employee bonus payments, business development costs and travel costs.

Foreign Exchange

For the three and six months ended June 30, 2014 the Company recorded a foreign exchange gain of $38,000 and $111,000, respectively, compared to a foreign exchange loss of $487,000 and $361,000 for the same periods in 2013 (realized plus unrealized gains and losses). The foreign exchange gains in 2014 are the result of fluctuations in currency rates.

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

Other Income

During the three and six months ended June 30, 2014 the Company recorded other income of $122,000 and $247,000, respectively, compared to $219,000 and $493,000 for the same periods in 2013. Other income is comprised of processing fee income and interest income related to cash on hand. The decrease in 2014 is attributed to lower average cash levels in comparison to 2013.

Funds Flow from Operations[1]

Funds flow from operations for the three and six months ended June 30, 2014 was $3.4 million and $7.2 million, respectively, compared to $1.8 million and $3.4 million for the same periods in 2013. The increase in funds flow from operations was due to higher production volumes, lower operating costs and lower general and

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

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

administrative expenses, partially offset by lower natural gas price realizations in Turkey as a result of the weakening of the Turkish Lira against the Canadian Dollar.

Non-cash Expenses:

Share-based Compensation

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

Share-based compensation expense for the three and six months ended June 30, 2014 was $157,000 and $300,000, respectively, compared to $383,000 and $740,000 for the same periods in 2013. The decrease in 2014 can be attributed to the cancellation of stock options in Q4 2013 which resulted in fewer stock options outstanding and a lower weighted average non-cash expense per award in 2014 when compared to 2013.

Financing costs

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Accretion of decommissioning obligations	**$ 163**	$ 137	**$ 322**	$ 278

Accretion of decommissioning obligations for the three and six months ended June 30, 2014 increased in comparison to the same periods in 2013 due to higher discount rates used in determining the Company's overall decommissioning liability and an increase in well locations.

Exploration and Evaluation Expense

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

Depletion and Depreciation

Depletion and depreciation for three and six months ended June 30, 2014 was $2.5 million and $5.4 million, respectively, compared to $1.8 million and $3.6 million for the same periods in 2013. Depletion and depreciation increased in 2014 due to higher total production volumes. Depletion is calculated on a unit-of-production basis utilizing proved plus probable reserves.

On a per unit basis, depletion and depreciation for the three and six months ended June 30, 2014 was $23.41/boe and $23.96/boe, respectively, compared to $22.64/boe and $23.15/boe for the same periods in 2013.

Deferred Tax

Deferred tax for the three and six months ended June 30, 2014 was an expense of $451,000 and $820,000, respectively, compared to a recovery of $178,000 and an expense of $25,000 for the same periods in 2013. 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.

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

The currency translation adjustment for the three and six months ended June 30, 2014 was a loss of $0.1 million and a gain of $0.2 million, respectively, compared to a loss of $2.0 million and $1.4 million for the same periods in 2013 and is related to the fluctuation in value of the Turkish Lira when compared to the Canadian Dollar in the respective periods.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Six months ended	
Turkey	**June 30, 2014**	June 30, 2013	**June 30, 2014**	June 30, 2013
Geological and geophysical	**$ 469**	$ 3,735	**$ 1,188**	$ 4,057
Dispositions	**-**	-	**(454)**	-
Drilling and completions	**215**	2,066	**3,326**	7,656
Equipping	**1**	42	**81**	335
Recompletions and fracs	**883**	406	**1,364**	603
Other	**-**	34	**-**	37
Turkey total	**1,568**	6,283	**5,505**	12,688
Canada total	**(64)**	20	**(55)**	60
Consolidated total	**$ 1,504**	$ 6,303	**$ 5,450**	$ 12,748

Turkey

There was no drilling in the second quarter of 2014 in order provide time to interpret the new Osmanli 3D seismic and to develop a program of firm, independent locations, which could be drilled back-to-back for the next phase of drilling that began on July 28. This strategy, and a focus on continuous improvement, is expected to deliver improved operational efficiency and lower costs for the drilling and completion program.

During the quarter, evaluation of the Osmanli 3D program was completed with several locations identified along with further evaluation of the wells drilled in the first quarter. Capital spending for Q2 2014 in Turkey was $1.6 million, of which $0.9 million related to recompletion and frac activities in Turkey.

During Q2 2014 the Company completed fracs in tight gas sands on four gross wells (1.6 net) and workovers on seven gross shallow gas wells (2.8 net) on the TBNG JV lands.

On February 19, 2014, Valeura entered into a sale agreement to dispose of its interest in Karakilise Licences 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.

Canada

In Q2 2014 the Company sold certain oil and gas properties in Canada for $75,000 and anticipates selling the remainder of its Canadian assets in Q3 2014.

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

Liquidity, Financing and Capital Resources

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Opening cash position	**$ 5,484**	$ 22,758	**$ 6,511**	$ 29,031
Inflow of funds				
Funds from operations	**3,433**	1,775	**7,177**	3,362
	3,433	1,775	**7,177**	3,362
Outflow of funds				
Capital expenditures	**(1,504)**	(6,303)	**(5,450)**	(12,748)
Decommissioning costs incurred	**-**	(8)	**(15)**	(33)
Changes in working capital and foreign exchange on cash	**(1,805)**	(1,479)	**(2,615)**	(2,869)
	(3,309)	(7,790)	**(8,080)**	(15,650)
Closing cash position	**$ 5,608**	$ 16,743	**$ 5,608**	$ 16,743

Capital Funding and Resources

As at June 30, 2014, Valeura's working capital balance was $8.9 million including a cash and cash equivalents position of $5.6 million.

Valeura's opening cash position in 2014 was $6.5 million. In the first six months of the year the Company utilized this opening cash balance and funds flow from operations of $7.2 million to fund an exploration and development capital program of $5.5 million. The resultant cash and cash equivalents balance at June 30, 2014 was $5.6 million also reflecting other negative changes in working capital totaling $2.6 million, including foreign exchange on cash and incurred decommissioning costs.

Financial Capacity

At the end of Q2 2014 the Company's working capital surplus was $8.9 million. The combination of this working capital surplus plus estimated funds flow from operations of $12.0 to $13.0 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 up to $14.0 to $16.0 million including up to $9.0 to $11.0 million in the second half of 2014. 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 expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available include working capital and funds flow from operations.

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

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

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.

Selected Quarterly Information

	Three months ended			
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Total daily production (boe/d)	1,166	1,317	1,191	1,011
Average wellhead price ($/boe)	$ 59.92	$ 58.18	$ 59.83	$ 61.79
Petroleum and natural gas sales	6,359	6,896	6,556	5,749
Funds flow from operations	3,433	3,744	3,789	3,067
$ per share (basic and diluted)[1]	0.06	0.06	0.07	0.05
Net Income (loss)	462	330	(9,840)	(4,632)
$ per share (basic and diluted)[1]	0.01	0.01	(0.17)	(0.08)

	Three months ended			
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Total daily production (boe/d)	862	851	1,008	1,140
Average wellhead price ($/boe)	$ 62.45	$ 63.31	$ 58.37	$ 55.88
Petroleum and natural gas sales	4,897	4,848	5,409	5,859
Funds flow from operations	1,775	1,587	2,700	2,803
$ per share (basic and diluted)[1]	0.03	0.03	0.05	0.06
Net Income (loss)	(2,228)	(818)	(12,110)	(702)
$ per share (basic and diluted)[1]	(0.04)	(0.01)	(0.21)	(0.02)

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 two 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 gain in Q2 2014 was $38,000 while the currency translation adjustment recorded in AOCI was a loss of $50,000.

[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, per share or per unit amounts)

Segmented Information

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Petroleum and natural gas revenue				
Canada	**$ 262**	$ 233	**$ 508**	$ 473
Turkey	**6,097**	4,664	**12,747**	9,272
	6,359	4,897	**13,255**	9,745
Net income (loss)				
Canada	**(1,385)**	(1,621)	**(2,527)**	(3,179)
Turkey	**1,847**	(607)	**3,319**	133
	462	(2,228)	**792**	(3,046)
Capital expenditures				
Canada	**(64)**	20	**(55)**	60
Turkey	**1,568**	6,283	**5,505**	12,688
	$ 1,504	$ 6,303	**5,450**	12,748
Total assets				
Canada			**6,674**	17,270
Turkey			**89,332**	101,716
			$ 96,006	$ 118,986

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 $0.7 million as at June 30, 2014.

New Accounting Pronouncements and Critical Accounting Policies

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to Valeura's December 31, 2013 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Adoption of Accounting Standards

On January 1, 2014, the Company adopted new standards with respect to IFRIC 21 – "Levies" which establishes guidelines for the recognition and accounting treatment of a liability relating to a levy imposed by a government, and amendments to "Offsetting Financial Assets and Financial Liabilities" addressed within IAS 32 – "Financial Instruments: Presentation", which provides guidance regarding when it is appropriate and permissible for an entity to disclose offsetting financial assets and financial liabilities on a net basis. The new and amended standards are effective for annual periods beginning on or after January 1, 2014 and have no impact on the Company's financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on April 1, 2014 and ending on June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at June 30, 2014 other than those previously disclosed under commitments.

Financial Instruments

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

Business Risks and Uncertainties

There are a number of risk factors that the Company faces as participants in the Canadian and international oil and gas industries, which are inherently risky. These risks have not materially changed from December 31, 2013. The reader is referred to Valeura's December 31, 2013 audited consolidated financial statements, MD&A and 2013 AIF for a description of these risks.