valeura energy inc.

Condensed Interim Consolidated Financial Statements (unaudited)

as at September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013

valeura energy inc.

Condensed Interim Consolidated Statements of Financial Position

(thousands of Canadian Dollars, unaudited)	**September 30, 2014**	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,974**	$ 6,511
Accounts receivable	**6,416**	7,533
Prepaid expenses and deposits	**309**	449
	12,699	14,493
Exploration and evaluation assets *(note 3)*	**31,056**	29,998
Property, plant and equipment *(note 4)*	**49,835**	52,782
	$ 93,590	$ 97,273
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,834**	$ 7,659
Decommissioning obligations	**9,472**	8,835
Deferred taxes	**5,569**	4,798
Shareholders' Equity		
Share capital *(note 6)*	**135,778**	135,778
Warrants *(note 6)*	**5,971**	5,971
Contributed surplus	**12,258**	11,743
Accumulated other comprehensive loss	**(13,008)**	(11,638)
Deficit	**(65,284)**	(65,873)
	75,715	75,981
	$ 93,590	$ 97,273

See Commitments *(note 8)*

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Loss
For the three and nine months ended September 30, 2014 and 2013

	Three Months Ended		Nine Months Ended	
(thousands of Canadian Dollars, except per share amounts, unaudited)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Revenue				
Petroleum and natural gas sales	**$ 5,330**	$ 5,466	**$ 18,077**	$ 14,737
Royalties	**(721)**	(738)	**(2,444)**	(1,983)
Other Income	**153**	214	**400**	707
	4,762	4,942	**16,033**	13,461
Expenses and other items				
Production	**587**	662	**1,876**	2,543
General and administrative	**1,162**	1,314	**3,918**	4,690
Financing	**154**	120	**462**	395
Foreign exchange loss	**512**	1,338	**401**	1,699
Share-based compensation	**122**	291	**422**	1,031
Exploration and evaluation *(note 3)*	**21**	4,493	**73**	5,920
Depletion and depreciation *(note 4)*	**2,276**	2,117	**7,569**	5,557
	4,834	10,335	**14,721**	21,835
Income (loss) from continuing operations before income taxes	**(72)**	(5,393)	**1,312**	(8,374)
Income taxes				
Deferred tax expense (recovery)	**99**	(682)	**919**	(657)
Income (loss) from continuing operations	**(171)**	(4,711)	**393**	(7,717)
Discontinued operations *(note 5)*				
Income (loss) from discontinued operations	**(32)**	79	**196**	39
Net income (loss) for the period	**(203)**	(4,632)	**589**	(7,678)
Other comprehensive loss				
Currency translation adjustments	**(1,532)**	(3,946)	**(1,370)**	(5,378)
Comprehensive loss	**(1,735)**	(8,578)	**(781)**	(13,056)
Net income (loss) per share				
Basic and diluted – continuing operations	**$ 0.00**	$ (0.08)	**$ 0.01**	$ (0.13)
Basic and diluted – discontinued operations	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.00
Basic and diluted – total	**$ 0.00**	$ (0.08)	**$ 0.01**	$ (0.13)
Weighted average number of shares outstanding	**57,906,135**	57,906,135	**57,906,135**	57,906,135

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2014 and 2013

	Three Months Ended		Nine Months Ended	
(thousands of Canadian Dollars, except share and per share amounts, unaudited)	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Cash was provided by (used in):				
Operating activities:				
Net income (loss) for the period	**$ (203)**	$ (4,632)	**$ 589**	$ (7,678)
Loss (income) from discontinued operations *(note 5)*	**32**	(79)	**(196)**	(39)
Depletion and depreciation	**2,276**	2,117	**7,569**	5,557
Exploration and evaluation expense *(note 3)*	**21**	4,493	**73**	5,920
Share-based compensation	**122**	291	**422**	1,031
Financing	**154**	120	**462**	395
Unrealized foreign exchange loss	**510**	1,312	**94**	1,663
Deferred tax expense (recovery)	**99**	(682)	**919**	(657)
Decommissioning costs incurred	**-**	(52)	**(15)**	(85)
Change in non-cash working capital	**520**	764	**(2,688)**	1,942
Cash provided by operating activities – continuing operations	**3,531**	3,652	**7,229**	8,049
Cash provided by (used in) operating activities – discontinued operations *(note 5)*	**(27)**	127	**229**	237
Cash provided by operating activities	**3,504**	3,779	**7,458**	8,286
Investing activities:				
Property and equipment expenditures	**(258)**	(2,315)	**(2,171)**	(3,164)
Exploration and evaluation expenditures	**(2,257)**	(6,140)	**(6,307)**	(17,979)
Proceeds on asset disposition *(note 3)*	**-**	-	**454**	-
Change in non-cash working capital	**(1,377)**	(1,956)	**(720)**	(5,939)
Cash used in investing activities – continuing operations	**(3,892)**	(10,411)	**(8,744)**	(27,082)
Cash provided by (used in) investing activities – discontinued operations	**710**	20	**769**	(40)
Cash used in investing activities	**(3,182)**	(10,391)	**(7,975)**	(27,122)
Foreign exchange gain (loss) on cash held in foreign currencies	**44**	(281)	**(20)**	(345)
Net change in cash and cash equivalents	**366**	(6,893)	**(537)**	(19,181)
Cash and cash equivalents, beginning of period	**5,608**	16,743	**6,511**	29,031
Cash and cash equivalents, end of period	**$ 5,974**	$ 9,850	**$ 5,974**	$ 9,850

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2014 and 2013

(thousands of Canadian Dollars, unaudited)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2014	57,906	$ 135,778	$ 5,971	$ 11,743	$ (65,873)	$ (11,638)	$ 75,981
Net income for the period	-	-	-	-	589	-	589
Currency translation adjustments	-	-	-	-	-	(1,370)	(1,370)
Share-based compensation	-	-	-	515	-	-	515
September 30, 2014	**57,906**	**$ 135,778**	**$ 5,971**	**$ 12,258**	**$ (65,284)**	**$ (13,008)**	**$ 75,715**

(thousands of Canadian Dollars, unaudited)	Number of Shares (thousands)	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Loss	Total Shareholders' Equity
Balance, January 1, 2013	57,906	$ 135,778	$ 5,971	$ 9,678	$ (48,355)	$ (5,735)	$ 97,337
Net loss for the period	-	-	-	-	(7,678)	-	(7,678)
Currency translation adjustments	-	-	-	-	-	(5,378)	(5,378)
Share-based compensation	-	-	-	1,276	-	-	1,276
September 30, 2013	**57,906**	**$ 135,778**	**$ 5,971**	**$ 10,954**	**$ (56,033)**	**$ (11,113)**	**$ 85,557**

See accompanying notes to the condensed interim consolidated financial statements

1. Reporting Entity

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

2. Basis of Preparation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's audited consolidated financial statements for the year ended December 31, 2013, with the exception as noted below 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 attached unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2013.

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.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 12, 2014.

(b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are consistent with the Company's December 31, 2013 audited consolidated financial statements.

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

(c) Functional and presentation currency

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

(thousands of Canadian Dollars, unaudited)

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

3. Exploration and Evaluation Assets

Cost		Total
Balance, December 31, 2013	$	29,998
Additions		6,307
Dispositions		(454)
Transfers to property, plant & equipment ("PP&E") *(note 4)*		(4,038)
Capitalized share-based compensation		93
Exploration and evaluation expense		(73)
Effects of movements in exchange rates		(777)
Balance, September 30, 2014	**$**	**31,056**

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. Transfers to exploration and evaluation expense represent the Company's share of impairment on E&E Cash Generating Units ("CGUs").

4. Property, Plant and Equipment

Cost		Total
Balance, December 31, 2013	$	90,053
Additions		2,171
Discontinued operations		(14,438)
Transfers from exploration and evaluation assets *(note 3)*		4,038
Change in decommissioning obligations		1,442
Effects of movements in exchange rates		(2,003)
Balance, September 30, 2014	**$**	**81,263**

Accumulated depletion and depreciation		Total
Balance, December 31, 2013	$	37,271
Depletion and depreciation expense		7,678
Discontinued operations		(12,701)
Effects of movements in exchange rates		(820)
Balance, September 30, 2014	**$**	**31,428**

Net book value		Total
Balance, December 31, 2013	$	52,782
Balance, September 30, 2014	**$**	**49,835**

(thousands of Canadian Dollars, unaudited)

On August 19, 2014, the Company completed the sale of certain non-core petroleum and natural gas properties in Canada with a net book value of $1.8 million and associated decommissioning obligations of $1.1 million. Consideration of $0.8 million in cash, before closing adjustments ($0.7 million after closing adjustments), was received in August 2014.

(a) Impairment testing

IFRS requires an impairment test to assess the recoverable amount of PP&E within each Cash Generating Unit ("CGU" or CGUs") whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell. As at September 30, 2014 and 2013, the Company conducted an assessment of impairment triggers for the Company's CGUs and concluded that there were no indicators of impairment.

(b) Turkey

For the purposes of calculating depletion for the three months ended September 30, 2014, petroleum and natural gas properties in Turkey include estimated future development costs of $71.2 million (December 31, 2013 – $73.2 million) associated with development of the Company's proved plus probable reserves.

The ultimate recovery of property, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company obtaining government approvals, obtaining and maintaining licences in good standing, the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

5. Discontinued Operations

On August 19, 2014, the Company completed the sale of virtually all of its non-core petroleum and natural gas properties in Canada for proceeds of $0.7 million (after closing adjustments). Prior to the discontinued operations, Valeura had two reportable segments consisting of Canada and Turkey.

Results from discontinued operations (Canada) are summarized as follows:

	Three months ended		**Nine months ended**	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Petroleum and natural gas revenue	**$ 143**	$ 283	**$ 651**	$ 757
Royalties	**(25)**	(29)	**(72)**	(56)
Production expense	**(145)**	(127)	**(350)**	(464)
Funds flow from discontinued operations	**(27)**	127	**229**	237
Financing expense	**-**	(2)	**(14)**	(5)
Depletion	**(20)**	(56)	**(109)**	(203)
Operating income (loss) from discontinued operations	**(47)**	69	**106**	29
Gain on sale of discontinued operations	**15**	10	**90**	10
Income (loss) from discontinued operations	**$ (32)**	$ 79	**$ 196**	$ 39

6. Share Capital

(a) Stock options

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years. No options were granted in the three month period ended September 30, 2014.

(thousands of Canadian Dollars, unaudited)

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

	Number of Options	Weighted average exercise price
Balance, December 31, 2013	1,847,250	$ 1.15
Granted	1,587,000	0.64
Forfeited	(260,250)	2.05
Balance, September 30, 2014	**3,174,000**	**$ 0.82**
Exercisable at September 30, 2014	**529,002**	**$ 1.00**

The following table summarizes information about the stock options outstanding at September 30, 2014:

Exercise prices	Outstanding at September 30, 2014	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2014	Weighted average exercise price
$0.64 - $0.82	1,587,000	6.5	$ 0.64	-	$ -
$0.83 - $1.00	1,587,000	5.5	$ 1.00	529,002	$ 1.00
	3,174,000	6.0	$ 0.82	529,002	$ 1.00

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

Assumptions	**September 30, 2014**	December 31, 2013
Risk free interest rate (%)	**1.6**	1.5
Expected life (years)	**4.5**	4.5
Expected volatility (%)	**100.0**	100.0
Forfeiture rate (%)	**5.0**	5.0
Weighted average fair value of options	**$ 0.46**	$ 0.72

(b) Performance warrants

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

	Number of Performance Warrants	Weighted average exercise price
Balance, December 31, 2013 and September 30, 2014	**2,796,750**	**$ 2.00**
Exercisable at September 30, 2014	**2,796,750**	**$ 2.00**

The following table summarizes information about the performance warrants outstanding at September 30, 2014:

Exercise prices	Outstanding at September 30, 2014	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2014	Weighted average exercise price
$2.00	2,796,750	0.3	$ 2.00	2,796,750	$ 2.00

(thousands of Canadian Dollars, unaudited)

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

Fair value of performance warrants granted ($/warrant)	1.50
Risk-free interest rate (%)	2.5
Expected life (years)	4.5
Expected volatility (%)	110
Expected forfeiture (%)	5
Expected dividend yield (%)	0

(c) Share purchase warrants

As at September 30, 2014, there are 13,269,217 post-consolidation share purchase warrants outstanding, entitling the holder to acquire one common share at a price of $5.50 per common share until February 28, 2016. The Company has the right to accelerate the expiry of the warrants to 30 days from the date of notice if the 20 day volume weighted average price of the Company's common shares on the TSX is equal to or greater than $11.00 per common share.

7. Capital Management

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

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

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

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

8. Commitments

On October 26, 2012, Valeura entered into a two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1 million, including an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $0.6 million as at September 30, 2014.