valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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 November 12, 2014 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended September 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.

During the third quarter, Valeura sold all of its remaining Canadian petroleum and natural gas properties. As the Company no longer has oil and gas properties in Canada the previous Canadian segment has been treated as discontinued operations and removed from current and comparative period results throughout this MD&A.

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 continuing operations:

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

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Cash provided by operating activities	**$ 3,531**	$ 3,652	**$ 7,229**	$ 8,049
Decommissioning costs incurred	**-**	52	**15**	85
Change in non-cash working capital	**(520)**	(764)	**2,688**	(1,942)
Funds flow from operations	**$ 3,011**	$ 2,940	**$ 9,932**	$ 6,192

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: future price realizations in Turkey; the final expected 2014 work program and budget, including the planned fourth quarter 2014 shallow gas development program in the Osmanli area and expected follow-up drilling on the Gurgen structure; the extent of exploration leads on the Banarli Licence 5104; operational plans and costs (drilling, fracking and workovers) for the tight gas and shallow gas development programs in the Thrace Basin; the preliminary 2015 work program and budget for the Banarli Licence 5104; the possible expansion of the drilling program in 2015 on the Banarli licence and the associated cost; 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; and, the ability to convert the Banarli Licence 5104 under the new licencing regime in Turkey.

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; 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 Boru Hatlari ile Petrol Tasima Anonim Sirketi ("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		Nine months ended	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Financial				
Petroleum and natural gas sales	**$ 5,330**	$ 5,466	**$ 18,077**	$ 14,737
Net income (loss) from continuing operations	**(171)**	(4,711)	**393**	(7,717)
Net income (loss) from discontinued operations	**(32)**	79	**196**	39
Net income (loss)	**(203)**	(4,632)	**589**	(7,678)
Per share, basic and diluted	**0.00**	(0.08)	**0.01**	(0.13)
Funds flow from continuing operations[1]	**3,011**	2,940	**9,932**	6,192
Per share, basic and diluted	**$ 0.05**	$ 0.05	**$ 0.17**	$ 0.11
Production volumes				
Crude oil (bbl/d)	**7**	16	**7**	17
Natural gas (Mcf/d)	**5,943**	5,708	**6,741**	5,050
Discontinued operations (boe/d)	**22**	44	**35**	50
Total (boe/d)	**1,019**	1,011	**1,166**	909
Sales prices				
Crude oil (per bbl)	**$ 82.18**	$ 99.26	**$ 86.26**	$ 97.28
Natural gas (per Mcf)	**9.66**	10.13	**9.73**	10.37
Total (per boe)	**58.11**	61.41	**58.57**	62.88
Capital expenditures (net)	**$ 2,515**	$ 8,455	**$ 8,024**	$ 21,143
Net working capital surplus			**9,865**	9,029
Cash and cash equivalents			**5,974**	9,850
Weighted average shares outstanding				
Basic and diluted (thousands)	**57,906**	57,906	**57,906**	57,906

Outstanding Share Data

	September 30, 2014
Common shares	57,906,135
Warrants ($5.50 exercise price per share)	13,269,217
Stock options ($0.82 weighted average exercise price per share)	3,174,000
Performance warrants ($2.00 weighted average exercise price per share)	2,796,750
Diluted	77,146,102

[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. The Company's small non-strategic assets in Canada were sold on August 19, 2014 and as a result the Canadian operations are considered discontinued for 2014 and all comparative years in this MD&A. Only the Company's continuing operations, which include Turkey operations and corporate costs, are discussed in this MD&A. 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 September 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 natural 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 September 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 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 September 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 nine months 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 in the Osmanli area immediately south of Valeura's 100 percent Banarli licence.

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 has been focusing the majority of its capital program in the Thrace Basin on tight gas exploitation in the past few years. 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 55 well re-entry fracs (including 11 multi-stage fracs) and 18 new drill fracs (including 11 multi-stage fracs) during the period from July 1, 2011 to September 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 nine months of 2014, and this contribution is growing.

In the third quarter of 2014, Valeura and its partners in the TBNG JV commenced a five-well conventional natural gas exploration program in the Osmanli area on the new 3D seismic acquired in late 2013. The program has resulted in three discoveries that were announced in early October 2014, of which one new discovery, Gurgen-1, was tied-in in early November and has been on production for six days at an average restrictive rate of 3.1 million cubic feet per day ("MMcf/d") over that period. The other two discoveries announced to date, Tavanli-1 and Biyikali-2 sidetrack, are being tied-in and are expected to be on-stream by the end of November.

In a subsequent development, two other wells drilled in October, Guney Osmanli-3 and Dogu Osmanli-1, have been cased. The Guney Osmanli-3 well has been completed and tested and is expected to be tied-in in December 2014. The Dogu Osmanli-1 well was drilled by the TBNG JV partners to a depth of 2,100 metres. Log analysis indicated gas bearing pay in the Mezardere formation only. Valeura elected to case the well as an independent operation (Valeura 100%) and plans to proceed with a strategically important completion and test of the Mezardere formation in late November.

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 September 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 barrels of oil per day ("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

Capital Expenditures

The Company expects to execute a final capital expenditure program of $11 to $12 million (net) in Turkey in 2014, focused almost entirely on natural gas development on the TBNG JV lands in the Thrace Basin.

The final work program on the TBNG JV lands in 2014 is expected to include nine to 10 wells (gross) including three horizontal wells and four vertical wells spudded in the first nine months of the year and two to three vertical wells in the fourth quarter, of which one is already drilled and completed. This includes one or two follow-up wells (gross) on the newly discovered Gurgen structure.

Six well re-entry fracs (gross) were completed in the first nine months of 2014, which completes the program for 2014. Up to 21 recompletion workovers (gross) in shallow gas formations are also expected to be completed in 2014, of which 18 had been completed in the first nine months of the year.

Joint venture technical and operating committee meetings are planned for December 2014 to develop the planned work program and budget for the TBNG JV, Edirne and Gaziantep assets in Turkey in 2015.

Licence Conversions Under New 2013 Petroleum Law

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. Valeura expects this process to continue to successfully unfold, with the conversion of the Banarli exploration licence potentially achievable by early in the first quarter of 2015, if not sooner. There is no certainty that such a conversion can be achieved and timing remains uncertain. (See the Company's 2013 AIF for a detailed description of the old and new licencing terms in Turkey).

New Banarli Strategy

Valeura has developed a new strategy for the 100 percent owned and operated Banarli licence in the Thrace Basin to explore the Osmancik and Mezardere formations down to a depth of approximately 2,500 metres, commencing in 2015. This new strategy is primarily driven by the recent success of the Osmanli area exploration drilling program on new 3D seismic on the TBNG JV lands immediately south of the Banarli licence. The Osmanli program reinforced the value of 3D seismic in exploring for traps along the extensive fault systems in the Thrace Basin, including the ability to image trap types that had not been pursued in the past on the TBNG JV lands.

Having regard to the value of 3D seismic and the improved cash position of the Company, Valeura has developed a preliminary work program and budget for 2015 at Banarli that includes approximately 140 square kilometres of new 3D seismic as a first step in the planned exploration program, which will complement the existing 2D seismic coverage of more than 300 kilometres on the licence, including 92 kilometres of new 2D seismic shot by Valeura in 2013. Estimated costs to acquire, process and interpret such a seismic program are approximately US$4.0 million based on the recent experience at Osmanli.

The preliminary 2015 work program also includes the drilling of at least one commitment exploration well in the third or fourth quarter under the assumption that a number of independent drillable prospects will be matured and high graded from more than 20 leads that have been mapped on the 2D seismic in the shallow stratigraphic sections. The cost to drill, complete and test a 2,500 metre well is estimated to be approximately US$1.9 million. This drilling program could be expanded in late 2015, depending on the Company's cash position at the time.

Valeura continues to believe that there is also significant upside potential for a basin-centred gas play in the deeper horizons at Banarli below about 3,000 metres. At this depth and associated temperature, the source rock shales and reservoir sands could be in an active hydrocarbon-generating "kitchen" forming a basin-centered gas accumulation, with regionally pervasive, low permeability, gas-saturated sandstone reservoirs exhibiting abnormally high pressures. The Company has an active process underway to seek a joint venture partner to participate in funding such a potential high impact deep exploration program and a number of companies remain engaged in this process. However, based on the recent exploration success in the adjacent Osmanli area and its new strategy for Banarli, the Company now intends to exploit the shallow and medium depth horizons on a 100 percent basis and is seeking a farm-out partner for the deeper horizons only. The Company expects that the 3D seismic to be shot in 2015 will also prove to be a valuable asset in this farm-out strategy.

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

Results of Operations

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Petroleum and natural gas sales	**$ 5,330**	$ 5,466	**$ 18,077**	$ 14,737
Royalties	**(721)**	(738)	**(2,444)**	(1,983)
Production costs	**(587)**	(662)	**(1,876)**	(2,543)
Operating netback[1]	**4,022**	4,066	**13,757**	10,211
Other income	**153**	214	**400**	707
General and administrative	**(1,162)**	(1,314)	**(3,918)**	(4,690)
Realized foreign exchange gain (loss)	**(2)**	(26)	**(307)**	(36)
Funds flow from operations[1]	**3,011**	2,940	**9,932**	6,192
Non-cash expenses				
Stock based compensation	**(122)**	(291)	**(422)**	(1,031)
Financing costs	**(154)**	(120)	**(462)**	(395)
Exploration and evaluation expense	**(21)**	(4,493)	**(73)**	(5,920)
Unrealized foreign exchange gain (loss)	**(510)**	(1,312)	**(94)**	(1,663)
Depletion and depreciation	**(2,276)**	(2,117)	**(7,569)**	(5,557)
Deferred tax recovery (expense)	**(99)**	682	**(919)**	657
Net Income (loss) from discontinued operations	**(32)**	79	**196**	39
Net Income (loss)	**$ (203)**	$ (4,632)	**$ 589**	$ (7,678)

Corporate Sales Volumes

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Crude oil (bbl/d)	**7**	16	**7**	17
Natural gas (Mcf/d)	**5,943**	5,708	**6,741**	5,050
Total (boe/d)	**997**	967	**1,131**	859
Continuing operations (boe/d)	**997**	967	**1,131**	859
Discontinued operations (boe/d)	**22**	44	**35**	50
Total (boe/d)	**1,019**	1,011	**1,166**	909

Corporate sales volumes for the three and nine months ended September 30, 2014 increased to 997 barrels of oil equivalent per day ("boe/d") and 1,131 boe/d, respectively, compared to 967 boe/d and 859 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		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Petroleum and natural gas sales	**$ 58.11**	$ 61.41	**$ 58.57**	$ 62.88
Royalties	**(7.86)**	(8.28)	**(7.92)**	(8.46)
Production costs	**(6.40)**	(7.44)	**(6.08)**	(10.85)
Operating netback	**$ 43.85**	$ 45.69	**$ 44.57**	$ 43.57

Pricing Information

	Three months ended		Nine months ended	
Average benchmark price	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Natural gas – BOTAS (per Mcf)[1] – TL	**TL 20.12**	TL 20.12	**TL 20.12**	TL 20.12
Natural gas – BOTAS (per Mcf) – CAD	**$ 10.14**	$ 10.63	**$ 10.18**	$ 11.05
Average exchange rate (CAD/TL)	**1.985**	1.893	**1.976**	1.820

	Three months ended		Nine months ended	
Company's average realized prices – continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Crude oil (per bbl)	**$ 82.18**	$ 99.26	**$ 86.26**	$ 97.28
Natural gas (per Mcf)	**$ 9.66**	$ 10.13	**$ 9.73**	$ 10.37

The following table shows the percentage change in Valeura's realized prices for Q3 2014 and YTD 2014 compared to the same periods in 2013:

	Q3 2014	**YTD 2014**
Crude oil	-17%	-11%
Natural gas	-5%	-6%

Natural gas prices remain much stronger in Turkey when compared to Canada. With approximately 99 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 ("TL"). The effective Canadian dollar converted reference price is $10.14 per thousand cubic feet ("Mcf") for Q3 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 Q3 2014 of $9.66 per Mcf represents a five percent discount to the BOTAS benchmark price.

The Company's Q3 2014 average realized natural gas price in Turkey decreased by five percent to $9.66 per Mcf from $10.13 per Mcf in Q3 2013 due to the weakening of the Turkish Lira against the Canadian Dollar.

The Turkish government has announced a nine percent increase in domestic natural gas prices, priced in Turkish Lira, effective October 1, 2014. The Company expects this increase to flow through to all of its natural gas sales

[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)

contracts and increase its average natural gas price realizations in Turkey in Q4 2014 to approximately $10.20 per Mcf assuming an exchange rate of 2.0 CAD/TL.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Crude oil	**$ 50**	$ 146	**$ 166**	$ 446
Natural gas	**5,280**	5,320	**17,911**	14,291
Total revenues	**$ 5,330**	$ 5,466	**$ 18,077**	$ 14,737

The composition of petroleum and natural gas sales revenues for the three and nine months ended September 30, 2014 was approximately 99 percent natural gas and one percent crude oil. Revenues in Q3 2014 decreased in comparison to the same period in 2013 due to lower realized natural gas prices in Turkey. Revenues increased for the nine months ended September 30, 2014 in comparison to the same period in 2013 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		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Royalties	**$ 721**	$ 738	**$ 2,444**	$ 1,983
Percentage of revenue	**13.5%**	13.5%	**13.5%**	13.5%

Royalties in Q3 2014 decreased in comparison to the same period in 2013 as a result of lower total revenue. Royalties for the nine months ended September 30, 2014 increased in comparison to the same period in 2013 as a result of higher production volumes and higher total revenue. Revenues in Turkey are subject to a 12.5 percent government royalty and certain overriding royalties.

Production Costs

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Production costs	**$ 587**	$ 662	**$ 1,876**	$ 2,543
$ per boe	**6.40**	7.44	**6.08**	10.85

Unit production costs for the three and nine months ended September 30, 2014 decreased to $6.40/boe and $6.08/boe, respectively, compared to $7.44/boe and $10.85/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 were $1.04 per Mcf for Q3 2014.

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

General and Administrative Expenses

	Three months ended		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
General and administrative	**$ 1,328**	$ 1,400	**$ 4,422**	$ 4,904
Business development	**11**	81	**101**	402
Total gross general and administrative	**1,339**	1,481	**4,523**	5,306
Recoveries	**(177)**	(167)	**(605)**	(616)
Total general and administrative expenses	**$ 1,162**	$ 1,314	**$ 3,918**	$ 4,690

Total general and administrative ("G&A") expenses for the three and nine months ended September 30, 2014 decreased by 12 percent and 16 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 nine months ended September 30, 2014 the Company recorded a foreign exchange loss of $0.5 million and $0.4 million respectively, compared to a foreign exchange loss of $1.3 million and $1.7 million for the same periods in 2013 (realized plus unrealized gains and losses). The foreign exchange losses 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 nine months ended September 30, 2014 the Company recorded other income of $153,000 and $400,000, respectively, compared to $214,000 and $707,000 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 nine months ended September 30, 2014 was $3.0 million and $9.9 million, respectively, compared to $2.9 million and $6.2 million for the same periods in 2013. The increase in funds flow from operations for the nine months ended September 30, 2014 was due to higher production volumes, lower operating costs and lower general and 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 nine months ended September 30, 2014 was $0.1 million and $0.4 million, respectively, compared to $0.3 million and $1.0 million for the same periods in 2013. The

[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)

decrease in 2014 can be attributed to the cancellation of stock options in Q4 2013 and Q3 2014, 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		Nine months ended	
Continuing operations	**September 30, 2014**	September 30, 2013	**September 30, 2014**	September 30, 2013
Accretion of decommissioning obligations	**$ 154**	$ 120	**$ 462**	$ 395

Accretion of decommissioning obligations for the three and nine months ended September 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 nine months of 2014 was nominal.

Depletion and Depreciation

Depletion and depreciation for the three and nine months ended September 30, 2014 was $2.3 million and $7.6 million, respectively, compared to $2.1 million and $5.6 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 nine months ended September 30, 2014 was $24.81/boe and $24.51/boe, respectively, compared to $23.80/boe and $23.70/boe for the same periods in 2013.

Deferred Tax

Deferred tax for the three and nine months ended September 30, 2014 was an expense of $0.1 million and $0.9 million, respectively, compared to a recovery of $0.7 million and $0.7 million 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.

The currency translation adjustment for the three and nine months ended September 30, 2014 was a loss of $1.5 million and $1.4 million, respectively, compared to a loss of $3.9 million and $5.4 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.

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

Discontinued Operations

On August 19, 2014, the Company completed the sale of all its small, non-strategic Canadian assets for total consideration of $0.7 million after closing adjustments and recorded a nominal gain on asset disposition.

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

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Geological and geophysical	**$ 337**	$ 1,769	**$ 1,525**	$ 5,826
Dispositions	**-**	-	**(454)**	-
Drilling, completions & equipping	**1,399**	4,747	**4,805**	12,738
Recompletions and fracs	**779**	1,938	**2,143**	2,541
Other	**-**	1	**5**	38
Continuing operations total	**2,515**	8,455	**8,024**	21,143
Discontinued operations total - Canada	**(710)**	(20)	**(769)**	40
Consolidated total	**$ 1,805**	$ 8,435	**$ 7,255**	$ 21,183

During Q3 2014 the Company spudded four gross (1.6 net) vertical wells, Gurgen-1, Tavanli-1, Biyikali-2 sidetrack and Guney Osmanli-3, of which all four were drilled and completed in the quarter, and drilled and fracked one gross (0.4 net) horizontal well, TDR-5H. All of these wells are on the TBNG JV lands. Gurgen-1 was drilled to a vertical depth of 2,100 metres into the Osmancik formation and has been on-stream for six days and has produced at an average restricted rate of 3.1 MMcf/d over that period. Tavanli-1 was drilled to a vertical depth of 1,300 metres into the Osmancik formation and is in the process of being tied into the gathering system. Biyikali-2 sidetrack was drilled to a vertical depth of 900 metres into the Osmancik formation and is in the process of being tied into the gathering system. Guney Osmanli-3 was spudded on September 29 and was drilled to the planned depth of 1,080 metres into the Osmancik formation and is in the process of being tied into the gathering system.

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TDR-5H was drilled to a vertical depth of 992 metres into the Teslimkoy formation with a horizontal section of 569 metres and was completed with an 8-stage frac. The well is tied into the gathering system and over the initial 30 days following tie-in flowed at an average rate of 1.3 MMcf/d (gross).

During Q3 2014 the Company completed re-entry fracs in tight gas sands on two gross wells (0.8 net) and workovers on six gross shallow gas wells (2.4 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.

Liquidity, Financing and Capital Resources

	Three months ended		**Nine months ended**	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Opening cash position	**$ 5,608**	$ 16,743	**$ 6,511**	$ 29,031
Inflow of funds				
Proceeds on asset disposition	**-**	-	**454**	-
Funds from operations	**3,011**	2,940	**9,932**	6,192
Proceeds on discontinued operations	**683**	147	**998**	197
	3,694	3,087	**11,384**	6,389
Outflow of funds				
Capital expenditures	**(2,515)**	(8,455)	**(8,478)**	(21,143)
Decommissioning costs incurred	**-**	(52)	**(15)**	(85)
Changes in working capital and foreign exchange on cash	**(813)**	(1,473)	**(3,428)**	(4,342)
	(3,328)	(9,980)	**(11,921)**	(25,570)
Closing cash position	**$ 5,974**	$ 9,850	**$ 5,974**	$ 9,850

Capital Funding and Resources

As at September 30, 2014, Valeura's working capital balance was $9.9 million including a cash and cash equivalents position of $6.0 million.

Valeura's opening cash position in 2014 was $6.5 million. In the first nine months of the year the Company utilized this opening cash balance, plus funds flow from operations and proceeds on asset dispositions totaling $11.4 million to fund an exploration and development capital program of $8.5 million. The resultant cash and cash equivalents balance at September 30, 2014 was $6.0 million after reflecting other negative changes in working capital totaling $3.4 million, including foreign exchange on cash and incurred decommissioning costs.

Financial Capacity

At the end of Q3 2014 the Company's working capital surplus was $9.9 million. The combination of this working capital surplus plus funds flow from operations for 2014 is expected to be sufficient to fund the Company's target capital program in 2014 of up to $11.0 to $12.0 million including up to $3.7 to $4.7 million in Q4 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.

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.

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

Selected Quarterly Information

	Three months ended			
Continuing operations	**September 30, 2014**	**June 30, 2014**	**March 31, 2014**	**December 31, 2013**
Total daily production (boe/d)	997	1,123	1,274	1,149
Average wellhead price ($/boe)	$ 58.11	$ 59.65	$ 57.98	$ 60.04
Petroleum and natural gas sales	5,331	6,097	6,650	6,347
Funds flow from operations	3,011	3,283	3,638	3,672
$ per share (basic and diluted)[1]	0.05	0.06	0.06	0.06
Net income (loss) from continuing operations	(171)	285	276	(6,854)
Net income (loss) from discontinued operations	(32)	177	54	(2,986)
Net income (loss)	(203)	462	330	(9,840)
$ per share (basic and diluted)[1]	0.00	0.01	0.01	(0.17)

	Three months ended			
Continuing operations	**September 30, 2013**	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**
Total daily production (boe/d)	967	815	792	944
Average wellhead price ($/boe)	$ 61.41	$ 62.92	$ 64.70	$ 58.96
Petroleum and natural gas sales	5,465	4,664	4,608	5,119
Funds flow from operations	2,940	1,721	1,531	2,636
$ per share (basic and diluted)[1]	0.05	0.03	0.03	0.05
Net income (loss) from continuing operations	(4,711)	(2,212)	(794)	(9,574)
Net income (loss) from discontinued operations	79	(16)	(24)	(2,536)
Net income (loss)	(4,632)	(2,228)	(818)	(12,110)
$ per share (basic and diluted)[1]	(0.08)	(0.04)	(0.01)	(0.21)

Note: prior period figures reclassified to remove discontinued Canadian operations.

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 loss in Q3 2014 was $0.5 million while the currency translation adjustment recorded in AOCI was a loss of $1.5 million.

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

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 $0.6 million as at September 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 July 1, 2014 and ending on September 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 September 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 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.