valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2020 and 2019

(tabular amounts in thousands of United States 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 May 11, 2020, and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month period ended March 31, 2020 and 2019. 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, 2019 ("2019 AIF"). The reporting currency is the United States Dollar ("USD") (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

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 should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2019. 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 2019 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.

Effective December 31, 2019, the Company changed its presentation currency from Canadian Dollars ("CAD") to USD to better reflect the Company's business activities, the needs of investors and comparability to peers in the oil and gas industry. All comparative amounts have been presented in USD to conform with current period presentation.

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.

Any financial outlook or future oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of Valeura, including, but not limited to, Valeura's expectations with respect to working capital at the end of 2020. Such financial outlook or future oriented financial 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.

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), "net capital" (cash flow used in investing activities, excluding changes in non-cash working capital and restricted cash), and "adjusted funds flow" (cash provided by operating activities before decommissioning costs incurred and changes in non-cash working capital) are non-GAAP measures and do not have standardised meanings prescribed by GAAP and are therefore unlikely to be comparable to similar measures used by other issuers. The Company uses these supplemental non-GAAP measures to assist readers in evaluating operating performance. The Company considers adjusted funds flow a key measure as it demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to fund future growth through capital investments and considers operating netback an important measure as it demonstrates its profitability level relative to current commodity prices. For further information and reconciliations, refer to the individual sections.

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

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2020	March 31, 2019
Financial		
Petroleum and natural gas sales	**$ 2,808**	$ 2,918
Net loss	**(192)**	(2,310)
Per share, basic and diluted	**(0.00)**	(0.03)
Adjusted funds flow[1]	**52**	341
Per share, basic and diluted	**0.00**	0.00
Cash provided by (used in) operating activities	**811**	$ (307)
Production volumes		
Natural gas (Mcf/d)	**4,200**	4,488
Crude oil (bbl/d)	**17**	20
Total (boe/d)	**716**	768
Sales prices		
Natural gas (per Mcf)	**$ 7.08**	$ 6.92
Crude oil (per bbl)	**65.22**	69.56
Total (per boe)	**43.03**	42.25
Exploration and development capital	**1,882**	4,273
Banarli Farm-in	**-**	(1,452)
Working capital[2]	**34,054**	43,811
Cash	**$ 32,554**	$ 47,800
Weighted average shares outstanding		
Basic and diluted (thousands) [3]	**86,585**	86,491

Outstanding Share Data

	March 31, 2020
Common shares	86,584,989
Stock options	8,403,334
Fully diluted	94,988,323

[1] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation to operating cash flow on page 10.

[2] Working capital is current assets less current liabilities.

[3] The weighted average number of common shares outstanding is not increased for outstanding stock options when the effect is anti-dilutive.

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

The Company

Valeura is a Canada-based public company currently engaged in the exploration, development and production of oil and natural gas in the Thrace Basin of northwest Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "VLE" and on the London Stock Exchange ("LSE"), under the trading symbol "VLU".

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 included the Mediterranean Basin. 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 the country.

The asset and financing deals completed by the Company between Q4 2016 and Q1 2018 transformed the Company by increasing the size of the asset base, giving Valeura operatorship of all key assets, and providing carried funding by a major company for the first phase of exploration and appraisal of the deep, unconventional tight gas ("Deep Gas") play.

The Company is focussed on growing its established business in Turkey, particularly its natural gas operations in the Thrace Basin which yields very high natural gas prices relative to North America. As a result of the discovery of deep, unconventional gas/condensate in the Yamalik-1, Inanli-1 and Devepinar-1 wells, the primary focus of Valeura's business has transitioned to the delineation and commercial demonstration of the Deep Gas play. However, the Company still continues to optimise its established conventional shallow gas assets in the Thrace Basin.

As at March 31, 2020, the Company held an interest in 20 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.46 million gross acres (0.37 million net acres of shallow rights and 0.26 million net acres of deep rights) as follows:

		Leases & Licence	Gross Area (Acres)	Valeura Shallow Rights		Valeura Deep Rights	
				WI	Net Acres	WI	Net Acres
South Thrace Production Leases	Operated	11	170,735	81.5%	139,149	81.5%	139,149
West Thrace Production Leases	Operated	3	13,578	81.5%	11,066	31.5%	4,277
Edirne Production Leases	Non-Operated	3	49,883	35.0%	17,459	35.0%	17,459
Banarli Exploration Licences	Operated	2	133,840	100.0%	133,840	50.0%	66,920
West Thrace Exploration Licence	Operated	1	88,434	81.50%	72,074	31.5%	27,857
Total			**456,470**		**373,558**		**255,662**

Effective April 2, 2020, Valeura holds a 100% working interest in the Banarli Exploration Licences and a 63% working interest in the West Thrace Exploration Licence and production leases in the deep rights.

The Company's primary producing assets are located in the South Thrace Lands and the West Thrace Lands, in each case, being the lands comprising the leases and licences described above (together the "TBNG JV Lands").

The South Thrace Lands are jointly held by Valeura's wholly-owned subsidiaries, Thrace Basin Natural Gas Inc. ("TBNG") (41.5%) and Corporate Resources BV ("CRBV") (40%), and an independent third party Pinnacle Turkey, Inc. ("PTI") holds the other 18.5% working interest. There is no work programme obligation to the Government of Turkey during the current term of the leases.

On the West Thrace Lands, as at March 31, 2020, the Company held a 31.5% working interest in deep rights which is held by TBNG, and an 81.5% working interest in shallow rights which is jointly held by TBNG (as to 41.5%) and CRBV (as to 40%). Valeura is the operator of the West Thrace Lands which are subject to joint operating agreements. The Company plans to drill two wells on the West Thrace Exploration Licence during Q2 2020, which will fulfil the remaining obligation in the current term of this licence. The first five year term of the licence will expire on June 26, 2020, and the Company has submitted an application to the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA") for approval to enter the next exploration period which will last for two years.

The Company holds two exploration licences in the Banarli Lands (the "Banarli Exploration Licences"), being the lands comprising the licences described above. As at March 31, 2020, the Company held a 100% working interest in the shallow rights and 50% working interest in the deep rights through CRBV. These rights are subject to joint operating agreements and the Banarli Farm-in and Valeura is currently the operator. The seismic and drilling work programme obligation to the Government of Turkey in the current term of the licences has been completed, except for geological and geophysical studies, which are ongoing and are expected to satisfy the obligation. The current five-year terms of the Banarli Exploration Licences expire on June 26, 2020. The Company has submitted an application to the GDMPA for approval to enter the next exploration period which will last for two years.

On February 4, 2020, Equinor provided formal notice under the applicable joint operating agreements ("JOAs") for both the Banarli Exploration Licences, the West Thrace Exploration Licence and the West Thrace Production Leases of their intent to withdraw from the joint operations. Under the JOAs, Equinor's working interests revert to the remaining partners in the blocks. This change of working interest between the parties was approved by the GDMPA and became effective April 2, 2020. In the Banarli Exploration Licences, Valeura now holds a 100% working interest, and in the West Thrace Exploration Licence and production leases, the Company's holdings have increased to 63% working interest in the deep rights.

The Company's wholly-owned subsidiary, Valeura Energy Netherlands BV held a 35% working interest in three production leases in Edirne. These leases currently do not have active operations or production and were fully impaired in 2016. The Company signed an agreement in Q3 2019 to transfer its interest in these licences to the operator for nominal consideration. This transfer was approved by the GDMPA on April 24, 2020 and Valeura currently holds no interest in these leases.

Business Environment

The gas prices the Company receives in Turkey in Turkish Lira ("TL") have not been affected by the events surrounding the world-wide oil price collapse in March 2020. The BOTAS reference price used in the Company's gas sales contracts is set based on local market conditions. However, due to the increase in value of the USD toward the end of the quarter due to the global crisis, the average price received in Q1 2020 was 5% less than that received in Q4 2019, on a USD basis.

Recently, in light of the global COVID-19 pandemic, economic activity in Turkey has begun to slow down, resulting in reduced gas demand from some of Valeura's light industrial customers. This reduced demand has been managed primarily by curtailing third-party gas throughput and by imposing only minimal reductions to Valeura's equity gas production.

Valeura is adhering to advice provided by local and international health authorities regarding social distancing and increased hygiene practices. As a result, most of the Company's production operations are able to proceed normally, however the Company has suspended non-critical field work, including workovers and redevelopment of existing wells, and has implemented work-from-home arrangements wherever possible. The Company will continue to monitor conditions associated with COVID-19, including the safety of personnel and operations, the security situation generally, the impact on the Turkish economy and the knock-on effects on the TL, the Company's banking facilities, the impact on our joint venture partners and any changes in offtakes by the Company's natural gas customers.

The preparation of 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 ability to make reliable estimates is further complicated when the political, economic and security situation is uncertain. Management has based its estimates with respect to the Company's operations in Turkey based on information available up to the date this MD&A was approved by the board of directors of the Company. Significant changes could occur which could materially impact the assumptions and estimates made in this MD&A.

Operations and Outlook

Production Operations

The Company generates cash flow from the sale of petroleum and natural gas production from its assets in the Thrace Basin of Turkey. The gas, which is composed primarily of methane, is gathered, dehydrated and compressed in Company-operated facilities and distributed on a Company-operated sales line network directly to approximately 55 light industry customers. Valeura is the operator of all of its production operations.

The Company's production generates strong operating netbacks which both generates operating income for the business and underscores the long-term potential value of the Company's unconventional gas resource. In early Q1 2020, the Company continued with selective low-cost workovers throughout the conventional play, which has recently yielded an increase in production, more than offsetting natural declines from the existing fields. This programme has been both technically and financially successful. Given the high netbacks, individual projects have generally delivered payback on the order of a few weeks or months. These operations are currently suspended due to the COVID-19 pandemic, but the Company expects to resume this activity when it is able.

In Q2 2020, the Company completed drilling two shallow exploration targets in the West Thrace Exploration Licence as obligation wells. The first well was spudded April 4, 2020 and drilling was completed on April 19, 2020. The second well was spudded on April 27, 2020 and drilling operations were completed in early May 2020. Both wells showed indications of hydrocarbons, however, production testing is required to confirm the commerciality of any potential pay. This work is deferred until operations have returned to normal.

In addition, the Company has undertaken a technical study that commenced in mid-2019 to assess the potential for further exploitation of its conventional shallow play. This study is expected to conclude in Q2 2020 and will guide further development and drilling of the existing fields.

Deep Unconventional Gas Play

Valeura identified the potential for a deep, unconventional tight gas play very early in its entry into the Thrace Basin. Five deep wells drilled to as deep as 4,000 metres by Valeura and its partners and other legacy operators prior to 2013 encountered over-pressured gas below approximately 2,500 metres, which supported an unconventional deep tight gas play concept. Based on this thesis, the Company acquired the Banarli Exploration Licences in 2013 in the centre and deepest part of the Thrace Basin and drilled two wells to depths of 2,500 to 2,800 metres that also encountered over-pressured gas below 2,500 metres. Recognising the higher cost associated with pursuing the deep gas play, the Company then completed transactions with Equinor in 2016 and 2017 including a farm-in to deep rights on the Banarli Exploration Licences (the "Banarli Farm-in") and sale of part of the Company's deep interests in the West Thrace Lands. The Company has since completed approximately 500 square kilometres of 3D seismic (Karaca 3D) and drilled, hydraulically stimulated and tested the Yamalik-1 and Inanli-1 exploration wells on the Banarli Exploration Licences (all funded 100% by Equinor) and the Devepinar-1 well on the West Thrace Lands funded by Equinor, Valeura and PTI.

On April 2, 2020, the Government of Turkey provided notice that it had approved the transfer of Equinor's working interests and rights to Valeura and PTI. This doubled Valeura's interest in the deep play and Valeura remains operator of all the production leases and exploration licences. Valeura has submitted exploration licence renewal applications for the Banarli Exploration Licences and West Thrace Exploration Licence to enter the next exploration phase, which would extend to June 26, 2022.

Valeura will be seeking a new partner for the appraisal of the deep play and is currently planning for the next phase of appraisal. Long-term testing of the deep zones from Devepinar-1 is currently being planned but has been delayed due to the COVID-19 crisis. Assuming an improvement in the operating environment, this testing is anticipated to begin during Q3 2020.

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

Results of Operations

	Three months ended	
	March 31, 2020	March 31, 2019
Petroleum and natural gas sales	**$ 2,808**	$ 2,918
Royalties	**(378)**	(388)
Production costs	**(801)**	(783)
Operating netback[4]	**1,629**	1,747
Other income	**268**	621
General and administrative expenses	**(1,230)**	(1,066)
Severance	**(450)**	-
Transaction costs	**-**	(806)
Realised foreign exchange loss	**(165)**	(47)
Current tax expense	**-**	(108)
Adjusted funds flow [5]	**52**	341
Non-cash expenses		
Share-based compensation	**(157)**	(538)
Accretion on decommissioning liabilities	**(218)**	(379)
Unrealised foreign exchange gain (loss)	**1,482**	(302)
Depletion and depreciation	**(1,278)**	(1,397)
Deferred tax expense	**(73)**	(35)
Net loss	**$ (192)**	$ (2,310

Sales Volumes

	Three months ended	
	March 31, 2020	March 31, 2019
Natural gas (Mcf/d)	**4,200**	4,488
Crude oil (bbl/d)	**17**	20
Total (boe/d)	**716**	768

Sales volumes increased 11% in Q1 2020 to 716 barrels of oil equivalent per day ("boe/d") relative to the previous quarter due to successful workover activities more than offsetting natural declines. Production decreased by 7% relative to the same period in 2019.

[4] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation on page 8.

[5] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation on page 10.

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

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2020**	March 31, 2019
Natural gas – BOTAS (per Mcf)[6]	**TL 43.67**	TL 38.08
Natural gas – BOTAS (per Mcf)	**$ 7.17**	$ 7.11
Average exchange rate (TL/USD)	**6.09**	5.79

	Three months ended	
Average realised prices	**March 31, 2020**	March 31, 2019
Natural gas (per Mcf)	**$ 7.08**	$ 6.92
Crude oil (per bbl)	**65.22**	69.56

Natural gas sales from the TBNG JV Lands are under direct sales contracts to industrial buyers and power generation companies in the area and each contract is at a negotiated discount or premium to the BOTAS Reference Price, described below. Natural gas from Banarli is being sold to the TBNG JV, net of a transportation and marketing fee. Valeura receives the majority of the benefits from this fee arrangement and the associated proceeds by virtue of its current 81.5% working interest in the TBNG JV facilities.

In Turkey the price of natural gas is set by BOTAS, the state-owned enterprise that owns most of the gas pipelines and controls most of the import contracts for natural gas into Turkey. The BOTAS Reference Price is denominated in TL. Historically, the BOTAS Reference Price has behaved in a similar manner to the regional price for natural gas when translated to USD. In 2018, BOTAS introduced regular updates to the natural gas price and since mid-2018 the price has been adjusted, if required, on the first day of the month. Analysis suggests that these price adjustments are taking into account variations in the regional price of natural gas, and changes in the TL exchange rate. While indications are that the BOTAS pricing continues to move toward a more market-driven price for natural gas, there is no guarantee that the government will continue this policy in the future.

In Q1 2020, the average realised natural gas price in Turkey of $7.08 per Mcf represents a 1.0% discount to the BOTAS benchmark price. The increase in Q1 2020 in comparison to the same period in 2019 is due to the price increase effective August 1, 2019.

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2020	March 31, 2019
Natural gas	**$ 2,706**	$ 2,795
Crude oil	**102**	123
Total revenues	**$ 2,808**	$ 2,918

Petroleum and natural gas sales revenues for Q1 2020, were 96% natural gas and 4% crude oil. Variations in the amount of crude oil (generally condensate) reported in a quarter is primarily due to how many liftings occur in the quarter. Revenues in Q1 2020 decreased in comparison to Q1 2019 due primarily to lower production volumes, offset partially by higher prices.

[6] BOTAS owns and operates the national crude oil and natural gas pipeline grids in Turkey and purchases the majority of Turkey's natural gas imports. BOTAS regularly posts prices and its Level-2 Wholesale Tariff benchmark is shown herein as a reference price. See the 2019 AIF for further discussion.

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

Royalties

	Three months ended	
	March 31, 2020	March 31, 2019
Royalties	**$ 378**	$ 388
Percentage of revenue	**13.5%**	13.3%

Royalties in Q1 2020 decreased in comparison to the same period in 2019 as a result of lower petroleum and natural gas sales revenues. Revenues are subject to a 12.5% government royalty and an overriding royalty only on the TBNG JV lands of 1%.

Production Costs

	Three months ended	
	March 31, 2020	March 31, 2019
Production costs	**$ 801**	$ 783
$ per boe	**12.28**	11.33

Production costs in Q1 2020 are comparable to Q1 2019. The higher unit production costs in Q1 2020 in comparison to the same period in 2019 are reflective of the level of fixed costs included in total operating costs and lower gross production from the TBNG JV Lands and Banarli Exploration Licences.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2020	March 31, 2019
Petroleum and natural gas sales	**$ 43.03**	$ 42.25
Royalties	**(5.80)**	(5.62)
Production costs	**(12.28)**	(11.33)
Operating netback[7]	**$ 24.95**	$ 25.30

Operating netbacks for Q1 2020 decreased in comparison to the same period in 2019 due primarily to higher per unit productions costs partially offset by higher realised prices.

Operating netback is a non-GAAP measure and is equal to petroleum and natural gas sales less royalties, production expenses and transportation costs. The Company considers operating netback an important measure as it demonstrates its profitability level relative to current commodity prices.

General and Administrative Expenses

	Three months ended	
	March 31, 2020	March 31, 2019
General and administrative expenses	**$ 1,912**	$ 1,954
Recoveries and capitalised general administrative expenses	**(682)**	(895)
Net general and administrative expenses	**1,230**	1,059

General and administrative expenses ("G&A Expense") before recoveries in Q1 2020 remained consistent in comparison to the same period in 2019. Overhead recoveries are realised primarily from operating the deep drilling and testing programme on the Deep Gas play and decreased in Q1 2020 as a result of lower capital activity. During

[7] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

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

Q1 2020 and Q1 2019, bonuses were paid which generally results in the Q1 period being the highest quarterly G&A Expenses total for the year.

Severance

During Q1 2020, the Company recorded severance costs of $0.5 million compared to $nil in 2019. The majority of the severance costs related to the departure of the previous Chief Financial Officer ("CFO") and were paid in accordance with his executive employment agreement.

Transaction Costs

During Q1 2020, the Company recorded transaction costs of $nil compared to $0.8 million for the same period in 2019. The Q1 2019 transaction costs are fees related to the Company's listing on the LSE.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q1 2020 was a gain of $1.3 million compared to a loss of $0.3 million for the same period in 2019.

The functional currency for the Company's Turkish operations is the TL. 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.

The Company's seismic and drilling operations and related contracts in Turkey are predominantly based in USD. Material increases in the value of the USD against the TL will negatively impact the Company's costs of drilling and completions activities. Future USD/TL exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators, as changes in realised prices, royalties, operating costs and abandonment liabilities effect the value of future cash flows from reserves.

Historically, any devaluation in the TL has been followed by an increase in the posted BOTAS Reference Price for natural gas. However, devaluation of the TL without a corresponding increase in the natural gas reference price, would have a negative impact on adjusted funds flow and could affect the ability of the Company to fund its capital programme in the future. Devaluation of the TL will also result in decreases in royalties, and operating expenses, all other things being equal.

Changes to the TL/USD exchange rate would have had the following impact on revenues, royalties and production costs for the three months and year ended March 31, 2020:

+/- 5% change in realised TL/USD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended March 31, 2020	$ 145	$ 19	$ 40

Changes to the TL/USD exchange rate would have had the following impact on capital expenditures for the three months ended March 31, 2020:

+/- 5% change in realised TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended March 31, 2020	$ 60

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

Other Income

	Three months ended	
	March 31, 2020	March 31, 2019
Third party natural gas sales net of costs	**$ 101**	$ 250
Interest and other revenue	**167**	371
Other Income	**$ 268**	$ 621

Other income is comprised of third party processing and marketing income and interest income related to cash on hand. This decrease is the result of: i) lower third party gas throughput, which was compounded by the requirement to shut in third-party gas as the COVID-19 crisis developed near the end of Q1 2020; and ii) lower average cash levels and interest rates in Q1 2020 in comparison to Q1 2019.

Current Tax

Current tax for Q1 2020 was an expense of $nil compared to an expense of $0.1 million for the same period in 2019. The current tax expense in Q1 2019 represents taxes due related to normal operating activities in Turkey.

Adjusted Funds Flow

Adjusted funds flow for Q1 2020 was an inflow of $0.1 million compared to $0.3 million for the same period in 2019. The decrease in adjusted funds flow in Q1 2020 was due to lower volumes, other income and higher general and administrative expenses partially offset by higher foreign exchange gains and realised prices.

The following table reconciles Valeura's cash provided by operating activities to adjusted funds flow:

	Three months ended	
	March 31, 2020	March 31, 2019
Cash provided by (used in) operating activities	**$ 811**	$ (307)
Decommissioning costs incurred	**16**	8
Change in non-cash working capital	**(775)**	640
Adjusted funds flow [8]	**$ 52**	$ 341

Adjusted funds flow is a non-GAAP measure and is based on cash provided by (used in) operating activities before decommissioning costs incurred and changes in non-cash working capital. The Company considers adjusted funds flow a key measure as it demonstrates the ability of the Company's continuing operations to generate the cash flow necessary to fund future growth through capital investments. Certain non-cash charges and decommissioning costs have been excluded from the calculation of adjusted funds flow, as management believes the timing of collection, payment and incurrence is variable and by excluding them from the calculation management is able to provide a more meaningful measure of the Company's cash flow from continuing operations.

Non-cash Expenses:

Share-based Compensation

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

[8] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

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Share-based compensation expense for Q1 2020 was $0.2 million compared to $0.5 million for the same period in 2019. The Company granted 3,045,000 options with a weighted average exercise price of $0.25 in Q1 2020.

Accretion on Decommissioning Liabilities

Accretion on decommissioning liabilities for Q1 2020 was $0.2 million compared to $0.4 million for the same period in 2019. The decrease is due to lower levels of inflation in Q1 2020 in comparison to Q1 2019.

Depletion and Depreciation

Depletion and depreciation for Q1 2020 was $1.3 million compared to $1.4 million for the same period in 2019. Depletion is calculated on a unit-of-production basis utilising proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q1 2020 was $19.61/boe compared to $20.2/boe for the same period in 2019.

Deferred Tax

Deferred tax for Q1 2020 was an expense of $0.07 million compared to an expense of $0.03 million for the same period in 2019. 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.

Currency Translation Adjustments

Translation of all assets and liabilities from their 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 realised foreign exchange gain or loss which is recorded in earnings.

The currency translation adjustment for Q1 2020 was a loss of $5.8 million compared to a loss of $0.7 million for the same period in 2019 reflecting the fluctuation in the value of the TL compared to the USD in the respective periods. The currency translation adjustment loss for Q1 2020 relates to the devaluation of the TL compared to the USD during Q1 2020.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended	
	March 31, 2020	March 31, 2019
Geological and geophysical	**$ 246**	$ 47
Drilling & completions	**1,157**	3,470
Workovers & recompletions	**372**	657
Equipping, facilities & other	**107**	99
Total exploration and development capital programme	**1,882**	4,273
Banarli Farm-in	**-**	(1,452)
Total net capital [9]	**$ 1,882**	$ 2,821

[9] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

Net capital is a non-GAAP measure and is equal to cash flow used in investing activities, excluding changes in non-cash working capital and restricted cash. The Company considers net capital expenditures to be a useful measure of cash flow used for capital reinvestment.

The Company's total exploration and development capital programme spending for Q1 2020 was $1.9 million, including $1.2 million for drilling and completions operations, $0.4 million for workovers and recompletions and $0.2 million for geological and geophysical. The Company spent $0.8 million on the deep drilling and testing programme and $1.1 million on the shallow operations.

2020 Capital Programme

Valeura's planned 2020 capital programme related to its shallow production operations includes approximately $1.5 million in low-cost workovers of existing producing wells and studies and approximately $2.5 million for the drilling, completion and tie-inof two wells on the West Thrace Exploration Licence.

The full year capital programme for the Deep Gas play is under review and is subject to partnering and government approval of the first 2-year extension phase of the Banarli and West Thrace Exploration Licences. However, capital is currently planned for studies and to undertake a long-term test of the deepest zone that was stimulated in the Devepinar-1 well. Estimated capital for this work is approximately $1.1 million.

All capital activity, except for drilling the obligation exploration wells on the West Thrace Exploration Licence is currently suspended due to COVID-19. However, the Company will resume activity as soon as conditions allow, and at the current time expects to be able to complete its planned capital programme in 2020, with timing shifting to the later part of the year for most projects.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2020	March 31, 2019
Opening cash position	**$ 36,111**	$ 45,993
Inflow of funds		
Changes in non-cash working capital[10]	**-**	3,804
Banarli Farm-in	**-**	1,452
Restricted cash	**-**	50
Proceeds from stock option exercises	**-**	201
Foreign exchange on cash	**-**	263
Adjusted funds flow[11]	**52**	341
	52	6,111
Outflow of funds		
Capital expenditures[12]	**(1,882)**	(4,273)
Decommissioning costs incurred	**(16)**	(8)
Principal payment on lease	**(24)**	(23)
Restricted cash	**(14)**	-
Changes in non-cash working capital[10]	**(271)**	-
Foreign exchange on cash	**(1,402)**	-
	(3,609)	(4,304)
Closing cash position	**$ 32,554**	$ 47,800

Capital Funding and Resources

As at March 31, 2020, Valeura's working capital[13] balance was $34.1 million including cash of $32.6 million. Valeura's 2020 opening cash position was $36.1 million. In Q1 2020, the Company utilised this opening cash balance plus funds flow from operations to fund an exploration and development capital programme of $1.9 million. The Company's cash position was reduced by $1.4 million due to the strengthening of the US dollar at the end of the quarter. The following summarises the Company's cash and cash equivalents composition as at March 31, 2020:

	March 31, 2020	
Currency	Foreign Amount	US Dollar
US Dollar	-	$ 14,930
Canadian Dollar	19,964	14,167
Turkish Lira	22,434	3,443
Other	12	14
Closing cash position		$ 32,554

10 Includes the following captions from the consolidated statements of cash flows: changes in non-cash working capital from operating activities andchanges in non-cash working capital from investing activities.

11 Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1.

12 Includes the following captions from the consolidated statements of cash flows: exploration and evaluation expenditures and property and equipment expenditures.

13 Working capital is current assets less current liabilities.

Financial Capacity

As at March 31, 2020, the Company's working capital[13] was $34.1 million. The working capital position is more than sufficient to fund the planned capital programme for 2020 as described above.

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 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 adjusted funds flow from operations. The Company is currently in an enviable position with sufficient cash on hand to fund its forward operations and no debt.

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 currently subject to any externally imposed capital requirements as it maintains operatorship over all the lands in the Thrace Basin.

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 utilised 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 annualised adjusted 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.

Equinor's withdrawal from the deep unconventional gas appraisal programme will result in Valeura's continued control and flexibility in planning its capital spend. This also doubled Valeura's interest in the deep gas play but may result in operational delays as the Company searches for another partner to participate in the deep unconventional gas appraisal programme.

Subsequent to December 31, 2019, the global impact of the COVID-19 as well as recent declines in spot prices for oil and gas have resulted in significant declines in global stock markets and has created a great deal of uncertainty as to the health of the global economy. As a result, oil and gas companies are subject to liquidity risks in maintaining their revenues and earnings as well as ongoing and future development and operating expenditure requirements. These factors are likely to have a negative impact on the Company's ability to raise equity, if required, in the near future or on terms favorable to the Company. The potential impact that COVID-19 will have on our business or financial results cannot be reasonably estimated at this time. Any shutdowns requested or mandated by government authorities in response to the outbreak of COVID-19 may have a material impact to the Company's planned operating activities, however, no mandated shutdowns have affected operations to date.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect to the Company is not known at this time. Estimates and judgments made by management in the preparation of these condensed interim consolidated financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

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

Restricted Cash

The Company has restricted cash in the amount of $0.3 million (2019 - $0.3 million) that is securing licence deposits with the GDMPA. This restricted cash is held with National Bank of Canada ("NBC") as security, along with the Account Performance Security Guarantee ("APSG") facility described below, for decommissioning or abandonment obligations and ongoing work programmes on the Company's Turkish licences and as security for third party gas purchases. As the expected abandonment date and work programmes for these assets is more than one year from March 31, 2020, this restricted cash and deposit have been classified as non-current in the Company's financial statements.

Effective March 17, 2020, the Company renewed its APSG facility with Export Development Canada. The APSG, which was issued to National Bank of Canada allows the Company to use the APSG as collateral for certain letters of credit issued by NBC. The facility is effective from March 17, 2020 to May 31, 2021 with a limit of US$4.5 million and can be renewed on an annual basis. The Company has issued approximately US$2.9 million in letters of credit under the APSG facility at current exchange rates.

Selected Quarterly Information

	Three months ended			
	March 31, 2020	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Total daily production (boe/d)	716	646	531	700
Average wellhead price ($/boe)	$ 43.03	$ 44.60	$ 44.32	$ 38.28
Petroleum and natural gas sales	2,808	2,653	2,166	2,440
Cash provided by (used in) operating activities	811	2,286	600	(1,007)
Adjusted funds flow [14]	52	1,595	1,032	773
Per share, basic and diluted	0.00	0.02	0.02	0.01
Net loss	(192)	(735)	(166)	(1,605)
Per share, basic and diluted	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)
	Three months ended			
	March 31, 2019	**December 31, 2018**	**September 30, 2018**	**June 30, 2018**
Total daily production (boe/d)	768	623	655	736
Average wellhead price ($/boe)	$ 42.25	$ 41.62	$ 30.47	$ 34.14
Petroleum and natural gas sales	2,918	2,384	1,837	2,285
Cash provided by (used in) operating activities	(307)	4,047	(1,127)	(317)
Adjusted funds flow (used) [14]	341	2,330	(329)	357
Per share, basic and diluted	0.01	0.03	(0.01)	0.01
Net loss	(2,310)	(480)	(2,025)	(1,088)
Per share, basic and diluted	$ (0.03)	$ (0.01)	$ (0.02)	$ (0.02)

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

[14] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciled on page 10.

- Revenue is directly impacted by the Company's ability to mitigate natural production declines with production additions from an on-going capital expenditure programme and acquisitions;
- Valeura has benefited from relatively high natural gas prices and netbacks in Turkey compared to North America. The 2018 and 2019 increases to the BOTAS Reference Price has resulted in higher wellhead price realisation. These reference price increases offset the effect of the weakening of the TL since 2017; and
- With its revenues in TL and capital expenditures primarily in reporting currency USD and in CAD, Valeura has exposure related to foreign exchange and currency translation. However, this risk is currently minimal given the large cash position held in USD and CAD.

Critical Accounting Policies

Use of Estimates and Judgments

The preparation of 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, 2019 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and 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, summarised 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 January 1, 2020 and ending on March 31, 2020 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 March 31, 2020, other than those previously discussed.

Financial Instruments

Financial instruments of the Company include cash, 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

Public Health Crises, including COVID-19, could adversely affect the Company's business

A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price and demand for oil and gas. COVID-19 could affect the Company's ability to conduct operations and may result in temporary shortages of staff to the extent our work force is impacted. Such an outbreak, if uncontrolled, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The economic activity in Turkey has begun to slow down resulting in reduced gas demand from some of Valeura's light industrial customers. This reduced demand to date has been managed primarily by curtailing third-party gas throughput and by imposing only minimal reductions to Valeura's equity gas production. If reduced demand continues, the Company may experience further reductions to its equity production. Valeura is adhering to advice provided by local and international health authorities regarding social distancing and increased hygiene practices. As a result, most of the Company's production operations are able to proceed normally, however the Company has suspended non-critical field work, including workovers and redevelopment of existing wells, and has implemented work-from-home arrangements wherever possible.

The COVID-19 pandemic has also resulted in the devaluation of the TL compared to the USD which has negatively impacted results. As previously discussed, the BOTAS price is denominated TL and has historically behaved in a similar manner to the regional price for natural gas when translated to USD. BOTAS introduced regular price updates to the natural gas price since mid-2018 and analysis suggests that these price adjustments are taking into account variations in the regional price of natural gas, and changes in the TL exchange rate. While indications are that the BOTAS pricing continues to move toward a more market-driven price for natural gas, there is no guarantee that the government will continue this policy in the future.

All other factors have not materially changed from December 31, 2019. The reader is referred to Valeura's December 31, 2019 audited consolidated financial statements, MD&A and 2019 AIF for a description of these risks.

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is for the purpose of explaining 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: resumption of the Company's field investment activities following expected easing of the COVID-19 pandemic restrictions; the 2020 work programme and capital budget; the review of the full year capital programme for the deep gas play; the ability to extend the term of the Banarli and West Thrace Exploration Licences beyond June 26, 2020; the timeliness and costs for the deep appraisal and testing programme in 2020; the ability to conduct a long term test on Devpinar-1; the completion of geological and geophysical studies on the Banarli Exploration Licences and resulting satisfaction of the work programme obligations thereon in the current term of the licences; the commerciality of the two recently drilled wells on the West Thrace Exploration Licence; the potential of a deep gas play in the Thrace Basin; the completion of the Company's technical study assessing the potential for further exploitation of its conventional shallow play; management's belief regarding the potential of the Company's deep gas play and shallow gas business in the Thrace Basin; the optimisation of the Company's conventional shallow gas assets; the Company's ability to find another partner for the deep unconventional gas appraisal programme; the Company's commitment to safety, environmentally responsible practices and optimising operational and administrative functions; the Company's business strategy and outlook, operational plans, and expected capital expenditures; and the availability of operating cash flow and the ability to finance development through 2020 from existing working capital and operating cash flow.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: the resumption of operations following the COVID-19 pandemic; political stability of the areas in which the Company is operating and completing transactions; continued safety of operations and ability to proceed in a timely manner; the impact of Equinor's withdrawal from joint operations; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future drilling activity on the expected timelines; the prospectivity of the TBNG JV Lands and Banarli Exploration Licences, including the deep potential; the continued favourable pricing and operating netbacks in Turkey; future production rates and associated operating netbacks and cash flow; decline rates; future sources of funding; future economic conditions; future currency exchange rates; the ability to meet drilling deadlines and other requirements under licences and leases; and the Company's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. In addition, the Company's work programmes and budgets are in part based upon expected agreement among joint venture partners and associated exploration, development and marketing plans and anticipated costs and sales prices, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of drilling, high-pressure stimulation and other specialised oilfield equipment and service providers, changes in partners' plans and unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect.

Forward-looking information involves significant known and unknown risks and uncertainties. Exploration, appraisal, and development of oil and natural gas reserves are speculative activities and involve a 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: the risks of currency fluctuations; changes in gas prices and netbacks in Turkey; potential changes in joint venture partner strategies and participation in work programmes; uncertainty regarding the contemplated timelines and costs for the deep evaluation; the risks of disruption to operations and access to worksites (including the impact of the COVID-19 pandemic), threats to security and safety of personnel and potential property damage related to political issues or civil unrest in Turkey; potential changes in laws and regulations, the uncertainty regarding government and other approvals; counterparty risk; risks associated with weather delays and natural disasters; and the risk associated with international activity. The forward-looking information included in this MD&A is expressly qualified in its entirety by this cautionary statement. See the 2019 AIF 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.