valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 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 March 24, 2021 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 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, 2020 ("2020 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as at and for the years ended December 31, 2020 and 2019, and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 of the consolidated financial statements.

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, proved and probable 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. 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.

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 on information available up to the date this MD&A which 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.

Assets Held for Sale

The financial statements as December 31, 2020 include certain assets which are being held for sale. This includes the Company's entire shallow conventional gas business, with all production. Until such time as the subject sale is completed, these assets remain owned and operated by Valeura. For convenience, wherever possible, the financial statements and this MD&A identify such assets being held for sale. Upon completion of the Pending Disposition (as defined below), the net economic benefit of the assets being sold, dating back to the effective date of July 1, 2020, will be tabulated and will be accounted for as a final closing adjustment.

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 may not 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.

Highlights and Selected Financial Information

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Financial				
Petroleum and natural gas sales	**$ 1,978**	$ 2,653	**$ 8,547**	$ 10,177
Net loss	**(15,294)**	(735)	**(19,534)**	(4,815)
Per share, basic and diluted	**(0.18)**	(0.01)	**(0.23)**	(0.06)
Adjusted funds flow (used) [1]	**(335)**	1,595	**(1,154)**	3,741
Per share, basic and diluted	**(0.00)**	0.02	**(0.01)**	0.04
Cash provided by (used in) operating activities	**$ (1,035)**	$ 2,286	**$ (145)**	$ 1,572
Production volumes				
Natural gas (Mcf/d)	**4,145**	3,877	**3,824**	3,907
Crude oil (bbl/d)	**16**	-	**13**	9
Total (boe/d)	**707**	646	**650**	660
Sales prices				
Natural gas (per Mcf)	**$ 5.02**	$ 7.44	**$ 5.94**	$ 6.98
Crude oil (per bbl)	**43.48**	-	**50.16**	64.90
Total (per boe)	**30.43**	44.64	**35.93**	42.21
Exploration and development capital	**934**	3,669	**4,845**	11,801
Banarli farm-in payments received	**-**	-	**-**	(1,452)
Working capital[2]			**42,190**	37,645
Cash			**$ 30,143**	$ 36,111
Weighted average shares outstanding Basic and diluted (thousands)[3]	**86,585**	86,585	**86,585**	86,562

[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 11.

[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.

Outstanding Share Data

	December 31, 2020
Common shares	86,584,989
Stock options	5,636,833
Fully Diluted	92,221,822

The Company

Valeura is a Canada-based public company currently engaged in the exploration, development and production of oil and natural gas. The Company has been active in Turkey for a decade and its current assets are all located 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 primarily focused around the Mediterranean Basin. The Company completed its first transaction in Turkey during 2010 and since that time has executed a number of other transactions and won several new exploration licence awards within Turkey. In 2017 the Company completed several key deals. In the first deal, the Company acquired increased ownership and took operatorship of its gas producing business in the Thrace Basin. In the second set of deals, Statoil (now Equinor) farmed in across several of the Valeura blocks for the first phase of exploration and appraisal of a deep, unconventional tight gas ("Deep Gas Play").

The Company generates cash flow from the sale of petroleum and natural gas production from its assets in the Thrace Basin. The gas is gathered, dehydrated and compressed in Company-operated facilities and distributed on a Company-operated sales line network directly to light industry customers. Valeura is the operator of all production operations. Since 2017, the Company has been focused on maintaining the gas production and cash flow from this business.

In partnership with Equinor since 2017, the Company has progressed the evaluation of the Deep Gas Play by completing approximately 500 square kilometres of 3D seismic (Karaca 3D) and drilling, hydraulically stimulating and production testing the Yamalik-1, Inanli-1, and Devepinar-1 exploration/appraisal wells. The 3D seismic and drilling, hydraulic stimulation and production testing of the first two wells were funded by Equinor under the farm-in agreement. The three new wells proved the presence of a large in-place gas resource across Valeura's landholdings and demonstrated that this gas would flow post stimulation.

In Q1 2020, Equinor provided formal notice of its intent to withdraw from the appraisal of the Deep Gas Play. In Q2 2020, the Company received approval from the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA") for the return of the Equinor working interest to Valeura, finalising Equinor's withdrawal and received approval for the first two-year exploration extension for the West Thrace Exploration Licence and Banarli Exploration Licences, which will now expire on June 27, 2022. This is the first of up to three possible two-year extensions providing a period of up to six additional years to explore and appraise the Deep Gas Play before the requirement to convert the licences to production leases. Each licence carries an obligation for one exploration well and geological studies for the current exploration period.

In Q3 2020, Valeura completed a corporate reorganisation of its wholly owned subsidiaries, so that all of the assets related to the Deep Gas Play are now held by Valeura Energy Netherlands B.V. ("VENBV"), and all of the conventional, shallow gas assets are held between Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Corporate Resources B.V. ("CRBV").

On October 20, 2020, the Company announced the execution of a share purchase agreement to sell its shallow conventional gas business for cash consideration of $15.5 million, plus royalty payments of an additional US$1

million to US$2.5 million (the "Pending Transaction"), subject to normal closing adjustments with an economic effective date of July 1, 2020. The Pending Transaction is structured as a sale of all the issued and outstanding shares of TBNG and CRBV. The completion of the Pending Transaction is subject to regulatory approval which is expected shortly. The assets held by these two subsidiaries are classified as "Assets Held for Sale" in the Consolidated Statement of Financial Position as of December 31, 2020, pending the close of the Pending Transaction.

As at December 31, 2020, the Company held an interest in 17 exploration licences and production leases in the Thrace Basin comprising approximately 0.41 million gross acres (0.36 million net acres of shallow rights and 0.34 million net acres of deep rights) as shown in the table below. Upon close of the Pending Transaction, Valeura will only maintain ownership of the blocks owned by VENBV, leaving Valeura with operatorship and deep rights to 0.20 million net acres.

		Gross Area (Acres)	Valeura Shallow Rights			Valeura Deep Rights		
			WI	Net Acres	VLE Owner	WI	Net Acres	VLE Owner
South Thrace Production Leases	11	170,735	81.5%	139,149	TBNG/CRBV	81.5%	139,149	TBNG/CRBV
West Thrace Production Leases	3	13,578	81.5%	11,066	TBNG/CRBV	63%	8,554	VENBV
Banarli Exploration Licences	2	133,840	100%	133,840	TBNG/CRBV	100%	133,840	VENBV
West Thrace Exploration Licence	1	88,434	81.5%	72,074	TBNG/CRBV	63%	55,713	VENBV
Total	**17**	**406,587**		**356,759**			**337,256**	

Operations and Outlook

Production Operations

In 2020, the Company was required to maintain its gas production in Turkey during the period of shutdowns and curfews related to COVID-19. Staffing was reduced and additional safety and health measures were introduced across all operations. These measures were successful, and the Company experienced no COVID outbreaks in any of its operations.

While field-based operations were reduced in 2020 due to COVID-19 restrictions, the Company maintained gas production at near pre-COVID-19 levels due in large part to additional production capacity resulting from two programmes of low-cost workovers. In addition, two shallow exploration wells were drilled in the West Thrace Exploration Licence to fulfil commitments. Both wells encountered gas and the first, which was proximal to facilities, has been tied in and is currently on production.

Given the Pending Transaction, activities in 2021 have been limited to operational maintenance on the assets, which remain owned by Valeura until the close of the Pending Transaction.

Deep Gas Play

In 2020 Valeura completed production testing of the Devepinar-1 well. The well yielded strong initial gas production but decline rates indicated that the one zone tested at this location was unlikely to yield sustained long-term economic flow. The focus of studies for the remainder of 2020 was on integrating all of the new geological and reservoir engineering data to determine the key success factors for the Deep Gas play. The data suggested that the best target for achieving commercial gas flow rates was to drill in locations where the dry gas (no condensate) maturity window is coincident with the best reservoir, which is normally encountered in the upper 300 metres of the Kesan Formation. Both criteria, the dry gas maturity window and the best reservoir, can be accessed with new target locations deeper in the basin, as opposed to all the previous wells, which were drilled on the fringe of the basin. Well locations were finalised in Q3 2020 based on these studies and submitted to the Turkish Government for approval.

With the departure of Equinor in Q1 2020, the Company's commercial activities were focused on a clean exit of Equinor, an extension of the three exploration licences, and finding a new partner to support the continued appraisal of the Deep Gas Play. In Q2 2020, the Company completed negotiations with Equinor for their exit and the return of their working interest to Valeura, including a cash payment from Equinor to offset future abandonment liabilities. In the same quarter, the Turkish Government approved Valeura's increase in working interest across the licences, and approved the first extension period of these licences to June 27, 2022.

Valeura initially planned to undertake a farm-out process starting in Q2 2020 aimed at identifying a new partner for the Deep Gas Play, however, the Company opted to delay the process until Q4 2020, given the COVID-19 pandemic and resultant challenges in the oil and gas industry, which meant that fewer companies were seeking new opportunities. The farm-out process was conducted in Q4 2020 and into 2021. As of today, there is no agreement with a new party to farm in to the Deep Gas Play. Stellar Energy Advisors, who were engaged by the Company to conduct the farm-out process remain engaged in the search for a new partner.

Valeura has confirmed its rights to the Deep Gas Play and has the capability to maintain these assets for up to another five years at low holding costs. In 2021, the Company will monitor the strengthening in the oil and gas industry and use this as an opportunity to identify a new partner. Based on past experience, the new appraisal well locations are likely to be approved by the Turkish Government in Q2 2021 which will create an opportunity for the Company to quickly progress to drilling the next appraisal well should a new partner be identified.

New Business

In 2020, Valeura started to investigate new business opportunities in the regions where it believes it can leverage its strong balance sheet and cash position for higher production and cash flows in the near future. The Company is seeking production or near production opportunities which generate near-term cash flow and provide significant growth potential. These activities are ongoing with advisory support from RBC Capital Markets and are a significant focus for the Company in 2021.

Business Environment

2020 was a challenging year for the global economy, and Turkey was no exception. The Turkish Lira ("TL") declined approximately 25% against the US dollar and inflation was approximately 15%. As Valeura's reference price for gas sales, BOTAS level 2 wholesale (processing) gas price ("BOTAS Reference Price"), is quoted in TL, the Company experienced a significant decrease in its realised gas price.

Economic activity in Turkey and gas demand stabilised by year end, but during the year there were periods of significant gas offtake decreases due to COVID-19 related shutdowns. Where possible, Valeura leveraged the terms of its commercial agreements with gas buyers and third-party gas shippers during these periods to shut-in third-party gas and prioritise its own equity production.

Production and all field-based operations were complicated during the year as Turkey's COVID-19 lockdown restrictions varied, resulting in increasing work-from-home arrangements. The COVID-19 pandemic is an evolving situation that may continue to have widespread implications for the Company's business environment, operations, and financial conditions. Management cannot reasonably estimate the length or severity of this pandemic and will continue to monitor the situation closely.

Valeura continues to adhere to advice provided by local and international health authorities regarding social distancing and increased hygiene practices. 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 the Company's joint venture partners and any changes in offtakes by the Company's natural gas customers.

Results of Operations

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Petroleum and natural gas sales	**$ 1,978**	$ 2,653	**$ 8,547**	$ 10,177
Royalties	**(267)**	(358)	**(1,152)**	(1,370)
Production costs	**(725)**	(838)	**(3,343)**	(3,020)
Operating netback[4]	**986**	1,457	**4,052**	5,787
Other income	**105**	343	**615**	1,718
General and administrative expenses	**(1,062)**	(449)	**(4,417)**	(2,350)
Severance	**(130)**	-	**(580)**	-
Transaction costs	**(223)**	-	**(223)**	(983)
Gain on settlement	**-**	-	**332**	-
Realised foreign exchange gain (loss)	**47**	80	**(668)**	(431)
Current tax recovery (expense)	**(58)**	164	**(265)**	-
Adjusted funds flow[5]	**(335)**	1,595	**(1,154)**	3,741
Non-cash expenses				
Share-based compensation	**(483)**	(326)	**(1,032)**	(1,766)
Accretion on decommissioning liabilities	**(242)**	(180)	**(913)**	(1,261)
Unrealised foreign exchange gain (loss)	**(1,115)**	(469)	**(233)**	(427)
Depletion and depreciation	**(342)**	(1,053)	**(3,649)**	(4,633)
Impairment	**(13,445)**	-	**(13,445)**	-
Deferred tax recovery (expense)	**668**	(302)	**892**	(469)
Net loss	**$ (15,294)**	$ (735)	**$ (19,534)**	$ (4,815)

Sales Volumes

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Natural gas (Mcf/d)	**4,145**	3,877	**3,824**	3,907
Crude oil (bbl/d)	**16**	-	**13**	9
Total (boe/d)	**707**	646	**650**	660

Sales volumes for Q4 2020 increased in comparison to the same period in 2019 and were 15% higher than Q3 2020. This was primarily the result of a successful workover program. On a full year basis, sales volumes decreased slightly for the year ended December 31, 2020 when compared to the same period in 2019 as a result of lower gas demand

[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 11.

from the Company's customer base due to the impact of the reduction of local industrial activity in light of the COVID-19 pandemic, offset by two periods of successful workovers.

Pricing Information

	Three months ended		Years ended	
Average reference prices	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Natural gas – BOTAS (per Mcf)[6]	**TL 39.44**	TL 43.67	**TL 41.53**	TL 40.41
Natural gas – BOTAS (per Mcf)	**$ 5.07**	$ 7.54	**$ 6.01**	$ 7.13
Average exchange rate (TL/USD)	**7.78**	5.79	**7.01**	5.67

	Three months ended		Years ended	
Average realised prices	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Natural gas (per Mcf)	**$ 5.02**	$ 7.44	**$ 5.94**	$ 6.98
Crude oil (per bbl)	**$ 43.48**	$ -	**$ 50.16**	$ 64.90

Natural gas sales from the Company's lands are under direct sales contracts to industrial buyers and power generation companies in the Thrace Basin area and each contract is at a negotiated discount or premium to the BOTAS Reference Price, described below.

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, when translated to USD, has behaved in a similar manner to the regional price for natural gas. 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, notwithstanding periodic time lags. 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.

Effective July 1, 2020, the Government of Turkey lowered the natural gas reference price by 10% (in TL). On January 1, 2021, February 1, 2021 and March 1, 2021, the Government of Turkey increased the natural gas reference price by 1% (in TL) respectively.

In Q4 2020, the Company's average realised natural gas price in Turkey of $5.02 per Mcf represents a 1.0% discount to the BOTAS benchmark price for that period.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Natural gas	**$ 1,915**	$ 2,653	**$ 8,315**	$ 9,954
Crude oil	**63**	-	**232**	223
Total revenues	**$ 1,978**	$ 2,653	**$ 8,547**	$ 10,177

[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 2020 AIF for further discussion.

Petroleum and natural gas sales revenues for the year ended December 31, 2020, was 97% natural gas and 3% crude oil. Variations in the amount of condensate produced is primarily due to how many liftings occur in the quarter. Revenues for Q4 2020 decreased in comparison to the same period in 2019 due primarily to the weakening of the TL compared to the USD partially offset by higher sales volumes. Revenues for the year ended December 31, 2020 decreased in comparison to the same period in 2019 due primarily to the weakening of the TL compared to the USD and lower sales volumes.

Royalties

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Royalties	**$ 267**	$ 358	**$ 1,152**	$ 1,370
Percentage of revenue	**13.5%**	13.5%	**13.5%**	13.5%

Royalties for Q4 2020 and the year ended December 31, 2020 decreased in comparison to the same periods 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		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Production costs – shallow	**$ 696**	$ 838	**$ 2,998**	$ 3,020
Production costs – Devepinar-1	**29**	-	**345**	-
Total production costs	**$ 725**	$ 838	**$ 3,343**	$ 3,020
$ per boe	**11.15**	14.09	**14.05**	12.53

The decrease in production costs for Q4 2020 in comparison to the same period in 2019 are primarily due to the devaluation of the TL to the USD. The increase in production costs for the year ended December 31, 2020 in comparison to the same period in 2019 is due to the costs associated with the long-term production testing of the Devepinar-1 well being included. If these one-off testing costs are excluded then the production costs in 2020 would have been $10.70 and $12.60 per boe for the three months and year ended December 31, 2020, respectively.

Operating Netbacks (per boe)

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Petroleum and natural gas sales	**$ 30.43**	$ 44.64	**$ 35.93**	$ 42.21
Royalties	**(4.11)**	(6.02)	**(4.84)**	(5.68)
Production costs	**(11.15)**	(14.09)	**(14.05)**	(12.53)
Operating netback[7]	**$ 15.17**	$ 24.53	**$ 17.04**	$ 24.00

Operating netbacks per boe in Q4 2020 and the year ended December 31, 2020 decreased in comparison to the same periods in 2020 primarily due to the drop in gas prices, and the one-off inclusion of the Devepinar-1 testing in the production costs.

[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 and reconciliation on page 8.

Operating netback is a non-GAAP measure and is equal to petroleum and natural gas sales less royalties and production expenses. 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		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
General and administrative expenses	**$ 1,252**	$ 1,359	**$ 5,989**	$ 6,062
Recoveries and capitalised general Administrative expenses	**(190)**	(910)	**(1,572)**	(3,712)
Total general and administrative expenses	**$ 1,062**	$ 449	**$ 4,417**	$ 2,350

General and administrative expenses before recoveries in Q4 2020 decreased slightly when compared to the same periods in 2019. Overhead recoveries are realised primarily from operating the deep drilling and testing programme on the Deep Gas Play and decreased in 2020 as a result of Equinor exiting the partnership. Lower capital activity as compared to 2019 also resulted in lower capitalisation of general and administrative expenses.

Transaction Costs

During Q4 2020 and the year ended December 31, 2020, the Company recorded transaction costs of $0.2 million and $0.2 million, respectively, compared to nil and $1.0 million for the same periods in 2019. The 2020 transaction costs are fees associated with the Pending Transaction. The 2019 transaction costs are fees related to the Company's listing on the LSE.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q4 2020 and the year ended December 31, 2020 was a loss of $0.9 million and $1.1 million, respectively, compared to a loss of $0.4 million and a loss $0.9 million, respectively, for the same periods 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 proved and probable reserves as determined by independent third party reserve evaluators, as changes in realised prices, royalties, operating costs and abandonment liabilities effect the value of future cash flows from proved and probable reserves.

Historically, any devaluation in the TL has typically been followed by an increase in the posted BOTAS Reference Price for natural gas. However, a devaluation of the TL without a corresponding increase in the natural gas reference price, has 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 result in decreases in realised natural gas prices, 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 December 31, 2020:

+/- 5% change in realised TL/USD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended December 31, 2020	$ 101	$ 13	$ 36
Year ended December 31, 2020	$ 474	$ 57	$ 168

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

+/- 5% change in realised TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended December 31, 2020	$ 15
Year ended December 31, 2020	$ 94

Other Income

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Third party natural gas sales net of costs	**$ 71**	$ 156	**$ 303**	$ 701
Interest and other revenue	**34**	187	**312**	1,017
Other Income	**$ 105**	$ 343	**$ 615**	$ 1,718

Other income is comprised of third-party processing and marketing income and interest income related to cash on hand. Third-party natural gas sales decreased during Q4 2020 and the year ended December 31, 2020 as a result of lower gas demand and the requirement to shut in third party gas due to the COVID-19 pandemic.

As a result of the global economic situation due in large part to the COVID-19 pandemic, interest rates were reduced to near zero and as a result, Valeura realised much lower interest income for Q4 2020, and the year ended December 31, 2020, than originally anticipated.

Current Tax

Current tax for Q4 2020 and the year ended December 31, 2020 was an expense of $0.1 million and $ 0.3 million, respectively, compared to a recovery of $0.2 million and $ nil for the same periods in 2019. The current tax expense represents taxes due related to normal operating activities in Turkey.

Adjusted Funds Flow

Adjusted funds flow for Q4 2020 and the year ended December 31, 2020 was an outflow of $0.3 million and $1.2 million, respectively, compared to an inflow of $1.6 million and $3.7 million for the same periods in 2019. The decrease in adjusted funds flow in Q4 2020 and the year ended December 31, 2020 was due to lower petroleum and natural gas sales, other income, overhead recoveries and increased severance costs.

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

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Cash provided by (used in) operating activities	**$ (1,035)**	$ 2,286	**$ (145)**	$ 1,572
Decommissioning costs incurred	**100**	136	**121**	554
Change in restricted cash	**232**	-	**232**	-
Change in non-cash working capital	**368**	(827)	**(1,362)**	1,615
Adjusted funds flow (used) [8]	**$ (335)**	$ 1,595	**$ (1,154)**	$ 3,741

Adjusted funds flow is a non-GAAP measure and is based on cash provided by (used in) operating activities before decommissioning costs incurred, changes in non-cash working capital and restricted cash. 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 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.

Share-based compensation expense for Q4 2020 and the year ended December 31, 2020, was $0.5 million and $1.0 million, respectively, compared to $0.3 million and $1.8 million for the same periods in 2019. During the year ended December 31, 2020, the Company granted 3,195,000 stock options with a weighted average exercise price of CAD $0.28. On November 25, 2020, directors, officers and employees of the Company voluntarily surrendered stock options for a nominal payment of $0.01 per option. This resulted in the cancellation of 1,957,500 stock options and the immediate recognition of the remaining $0.3 million of share-based compensation expense associated with these stock options.

Accretion on Decommissioning Liabilities

Accretion on decommissioning obligations for Q4 2020 and the year ended December 31, 2020, was $0.2 million and $0.9 million, respectively, compared to $0.2 million and $1.3 million for the same periods in 2019. The decrease is due to lower levels of inflation in 2020 in Turkey in comparison to 2019.

Impairment

Impairment for Q4 2020 and the year ended December 31, 2020 was $13.4 million, compared to $nil for the same periods in 2020. The Company has no proved and probable reserves as of December 31, 2020 associated with the Deep Gas Play. The Company therefore recorded the aforementioned impairment to the PP&E associated with the Deep Gas Play assets.

[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.

Depletion and Depreciation

Depletion and depreciation for Q4 2020 and the year ended December 31, 2020, was $0.3 million and $3.6 million, respectively, compared to $1.1 million and $4.6 million for the same periods in 2019. The decrease in Q4 2020 and the year ended December 31, 2020 was the result of transferring shallow conventional gas assets to assets held for sale on October 20, 2020. No depletion on the shallow assets was calculated after the transfer to assets held for sale. Depletion is calculated on a unit-of-production basis utilising proved and probable reserves.

On a per unit basis, depletion and depreciation for Q4 2020 and the year ended December 31, 2020, was $5.26/boe and $15.34/boe, respectively, compared to $17.72/boe and $19.23/boe for the same periods in 2019.

Deferred Tax

Deferred tax for Q4 2020 and the year ended December 31, 2020, was a recovery of $0.7 million and $0.9 million, respectively, compared to an expense of $0.3 million and $0.5 million for the same periods 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 Q4 2020 and the year ended December 31, 2020 was a gain of $2.8 million and a loss of $5.9 million, respectively, compared to a loss of $0.8 million and $1.9 million for the same periods in 2019 reflecting the fluctuation in the value of the TL compared to the USD in the respective periods.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended		**Years ended**	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Geological and geophysical	**$ 131**	$ 322	**$ 801**	$ 672
Drilling & completions	**472**	2,340	**3,154**	8,164
Workovers & recompletions	**288**	707	**685**	2,254
Equipping, facilities & other	**43**	300	**205**	711
Total exploration and development capital programme	**934**	3,669	**4,845**	11,801
Banarli farm-in payments received	**-**	-	**-**	(1,452)
Total net capital [9]	**$ 934**	$ 3,669	**$ 4,845**	$ 10,349

[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 activities are discussed in the section Operations and Outlook. The total exploration and development capital programme for 2020 was $4.8 million, primarily comprised of $3.2 million for drilling and completions, $ 0.7 million for workovers and recompletions, and $0.8 million for geological and geophysical.

2021 Capital Programme

As noted in the Operations and Outlook section, Valeura's current planned 2021 capital programme related to its shallow production is maintenance work pending the closing of the Pending Transaction. The capital programme for the Deep Gas Play is under review and is subject to the Company finding a new partner.

Share Capital

Common shares	Number of Shares	Amount
Balance, December 31, 2019	86,584,989	$ 179,717
Stock options exercised	-	-
Balance, December 31, 2020	**86,584,989**	**$ 179,717**

As at December 31, 2020, Valeura had 86,584,989 common shares outstanding and 5,636,833 outstanding stock options, for a total diluted number of shares outstanding of 92,221,822, assuming exercise of all stock options. As at March 23, 2020, Valeura has 86,584,989 common shares outstanding and 5,096,833 outstanding stock options.

Liquidity, Financing and Capital Resources

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Opening cash position	**$ 31,297**	$ 38,486	**$ 36,111**	$ 45,993
Inflow of funds				
Banarli farm-in payments received	**-**	-	**-**	1,452
Restricted cash	**149**	6	**26**	-
Proceeds from stock option exercises	**-**	-	**-**	201
Foreign exchange on cash	**370**	136	**-**	571
Adjusted funds flow[10]	**-**	1,595	**-**	3,741
Change in non-cash working capital[11]	**-**	-	**915**	-
	519	1,737	**941**	5,965
Outflow of funds				
Capital expenditures[12]	**(934)**	(3,669)	**(4,845)**	(11,801)
Decommissioning costs incurred	**(100)**	(136)	**(121)**	(554)
Payments on leases	**(10)**	(22)	**(68)**	(75)
Restricted cash	**-**	-	**-**	(62)
Change in non-cash working capital	**(294)**	(285)	**-**	(3,355)
Adjusted funds flow	**(335)**	-	**(1,154)**	-
Foreign exchange on cash	**-**	-	**(721)**	-
	(1,673)	(4,112)	**(6,909)**	(15,847)
Closing cash position	**$ 30,143**	$ 36,111	**$ 30,143**	$ 36,111

Capital Funding and Resources

Valeura's 2020 opening cash position was $36.1 million and the Company utilised this opening cash balance to fund an exploration and development capital programme of $4.8 million.

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'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

[10] 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.

[11] Includes the following captions from the consolidated statements of cash flows: changes in non-cash working capital from operating activities, changes in non-cash working capital from investing activities and foreign exchange gain (loss) on cash held in foreign currencies.

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

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.

Restricted Cash

The Company has restricted cash in the amount of $0.2 million (2019 - $0.3 million) that is securing licence deposits with the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey ("GDMPA"). This restricted cash is held mostly 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.

Effective March 17, 2020, the Company renewed its APSG facility with Export Development Canada ("EDC"). The APSG facility, which was issued to NBC allows the Company to use the facility 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			
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Total daily production (boe/d)	707	615	561	716
Average wellhead price ($/boe)	$ 30.43	$ 32.57	$ 37.57	$ 43.03
Petroleum and natural gas sales	1,978	1,843	1,918	2,808
Cash provided by (used in) operating activities	(1,035)	(1,113)	1,192	811
Adjusted funds flow (used) [13]	(335)	(1,210)	339	52
Per share, basic and diluted	(0.00)	(0.01)	0.00	0.00
Net loss	(15,294)	(2,149)	(1,899)	(192)
Per share, basic and diluted	$ (0.18)	$ (0.02)	$ (0.02)	$ (0.00)
	Three months ended			
	December 31, 2019	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Total daily production (boe/d)	646	531	700	768
Average wellhead price ($/boe)	$ 44.60	$ 44.32	$ 38.28	$ 42.25
Petroleum and natural gas sales	2,653	2,166	2,440	2,918
Cash provided by (used in) operating activities	2,286	600	(1,007)	(307)
Adjusted funds flow (used) [14]	1,595	1,032	773	341
Per share, basic and diluted	0.02	0.02	0.01	0.01
Net loss	(735)	(166)	(1,605)	(2,309)
Per share, basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.03)

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

- The Company was required to write down the value of the Deep Gas assets in 2020, which resulted in the significant loss reported in Q4 2020.
- Quarterly 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, and by the continued decline in the value of the TL offset by increases in the Botas Reference Price, which have historically generally offset these declines.

[13] 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 11.

Selected Annual Information

			Years Ended
	December 31, 2020	December 31, 2019	December 31, 2018
Petroleum and natural gas sales	$ 8,547	$ 10,177	$ 9,249
Cash provided by (used in) operations	(145)	1,572	(479)
Adjusted funds flow [14]	(1,154)	3,741	2,789
Per share, basic and diluted	(0.01)	0.04	0.03
Net loss	(19,534)	(4,815)	(5,519)
Per share, basic and diluted ($/share)	(0.23)	(0.06)	(0.07)
Daily production (boe/d)	650	660	717
Sales price ($/boe)	35.93	42.21	35.33
Cash	30,143	36,111	45,993
Total assets	54,857	81,663	94,614
Total long term liabilities	2,161	9,952	13,063
Net working capital[15]	$ 42,190	$ 37,645	$ 43,884

Valeura's petroleum and natural gas sales, cash provided by operations, adjusted funds flow and net loss are all impacted by production levels and commodity pricing. Daily production in 2020 remained consistent with 2019 production on both the TBNG JV and Banarli Exploration Licences. Natural gas prices were strong in Turkey over the three year period but were negatively impacted by the devaluation of the TL to the USD in 2020. Total assets in 2020 were negatively impacted by impairment and the devaluation of the TL against the USD.

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, 2020 audited consolidated financial statements for a description of estimates and judgments.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarised and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that Valeura's DC&P were effective as at December 31, 2020.

Internal control over financial reporting ("ICFR"), as defined in NI 52-109, includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions

[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 11.

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

and dispositions of assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorisations of management and directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2020, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2020 and concluded that as of December 31, 2020, ICFR was effective. The Company uses the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") – Integrated Framework ("2013 Framework"). Valeura has designed its internal controls over financial reporting based on the 2013 Framework. 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 December 31, 2020.

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

The reader is referred to the 2020 AIF for a more complete description of business risks and uncertainties.

The Company is largely reliant on the success of the Thrace Basin assets and other exploration assets in Turkey

The Thrace Basin assets are anticipated to be the Company's sole source of near-term revenue earnings. A significant portion of the Company's proved and probable reserves are associated with undeveloped proved and probable reserves in tight formations. Whilst the Company has drilled and stimulated conventional, normally-pressured, tight formations in many shallow wells, experience in drilling and stimulating over-pressured, tight formations in deep wells is very limited. There is uncertainty regarding the sustainability of initial production rates and decline rates thereafter. Management believes that shallow gas wells which are high-pressure fracture stimulated tight gas wells will exhibit relatively high decline rates of 50% and 75%, or more, respectively, in their first year of production. There are also risks and uncertainty regarding the Company's ability to address technical drilling challenges and the management of water production, as required. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future operations, liquidity and financial condition of the Company. Following completion of the Pending Transaction, Valeura's operations will be limited to the Deep Gas Play, until such time as it identifies new business opportunities.

A significant portion of the Company's potential future value is estimated to be associated with the natural gas prospective resource associated with the Deep Gas Play discovered with the Yamalik-1 exploration well. The Deep Gas Play is still in the early phase of exploration and appraisal with large uncertainties and risk. While there are now 11 wells around the basin that all are interpreted to have encountered high-pressure gas at depth, the current well density in the basin and this play is still very low. Additionally only three of these wells have been fracture stimulated

and production tested. There are large uncertainties laterally across Valeura's land interests, and vertically in the target Kesan Formation, as to the presence of gas, the pressure of any gas, the amount of condensate in the gas and the commercial producibility of these hydrocarbons.

Regional drilling data and 3D seismic interpretation indicate that the target Kesan Formation reservoir should be more than 2,000 metres thick with a high net sand but these interpretations need to be proven with drilling across the basin. Further, the porosity of the rock is very low and decreases with depth. The location of any sweet spots with high porosity and hence more gas is also still to be demonstrated both vertically and laterally. The above factors primarily affect the gas initially in place (GIIP). The ability to flow and recover gas commercially is still to be demonstrated. Most of the historic wells were drilled prior to high-pressure stimulation being a commonly accepted technique and none achieved a commercial flow rate using the perforation and testing techniques available at the time. Yamalik-1, Inanli-1 and Devepinar-1, have all been subjected to varying degrees of high-pressure stimulation on a number of intervals, however at this point none have demonstrated a clearly commercial flow rate. Longer term testing of the zones is required. In the longer term the Company will be dependent on the development of its Thrace Basin assets. It is not uncommon for new gas developments to experience unexpected problems and delays during construction, commissioning and production start-up, or indeed for such projects to fail. Any adverse event affecting the development of the Thrace Basin assets, either during their development or following the commencement of production, would have a material adverse effect on the Company's business, results of operations, financial condition and the price of the common shares, as the Company has no other near-term source of revenue earnings.

Reliance on Turkish infrastructure

The Company currently owns and operates its entire production infrastructure from its wells to its gas consumers. However, in future the Company may require increased use of common carrier Turkish infrastructure. If such common carrier infrastructure is not available to the Company on commercially acceptable terms the Company's ability to commercially exploit its assets would be limited.

Valeura's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Valeura may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, land access, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Disruption in or increased costs of transportation services could make oil and natural gas a less competitive source of energy or could make Valeura's oil and natural gas less competitive than other sources. The industry depends on pipeline facilities and other methods of transportation to deliver shipments, and transportation costs are a significant component of the total cost of supplying oil and natural gas. Disruptions of these transportation services because of weather related problems, strikes, lockouts, terrorist activities, delays or other events could temporarily impair the ability to supply oil and natural gas to customers and may result in lost sales or costs associated with any take or pay obligations. In addition, increases in transportation costs, or changes in transportation costs for oil and natural gas produced by competitors, could adversely affect profitability. To the extent such increases are sustained, Valeura could experience losses and may decide to discontinue certain operations forcing Valeura to incur closure and/or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of Valeura's properties and Valeura may be required to use more expensive transportation alternatives.

Acquisitions, dilution and availability of debt

Valeura has announced a strategy to grow in the near to mid term through mergers and acquisitions, of either assets or shares of other entities. These mergers and/or acquisitions may require Valeura to enter into financings or other transactions involving the issuance of securities of Valeura which may be dilutive.

Valeura may have difficulty accessing debt needed to acquire and develop international oil and gas properties. This may result in the inability of Valeura to complete certain acquisitions or drilling activities. Future acquisitions may be financed partially or wholly with debt, which may increase debt levels above industry standards. Depending on future exploration and development plans, Valeura may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Valeura's articles nor its by-laws limit the amount of indebtedness that it may incur. The level of Valeura's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Capital requirements

Valeura may in future require capital expenditures beyond its current cash position. Valeura's cash flow from its proved and probable reserves, once developed, may not be sufficient to fund its ongoing activities at all times. If Valeura's revenues from its proved and probable reserves, once developed, decrease as a result of lower oil and natural gas prices or otherwise, it will affect Valeura's ability to expend the necessary capital to replace its proved and probable reserves or to maintain its production, and it may have limited ability to acquire or expend the capital necessary to undertake or complete future drilling programmes.

Valeura has announced the sale of its conventional, shallow producing business, which is also its only current source of cash flows. Upon completion of the Pending Transactions, Valeura's cash resources after the sale will be limited to its cash on hand unless it is able to realise success on its inorganic growth strategy or realise commercial production levels from its Deep Gas Play and add cash flows.

From time to time, Valeura may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Valeura to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If cash flow from operations is not sufficient for Valeura to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Valeura. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Valeura. The potential inability of Valeura to access sufficient capital for its operations could have a material adverse effect on Valeura's financial condition, results of operations or prospects.

Management of growth

Valeura may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Valeura to manage growth effectively and other acquired assets or companies, will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The potential inability of Valeura to deal with this growth could have a material adverse impact on its business, operations and prospects, particularly since Valeura has announced a strategy of growing through mergers and acquisitions in the near to mid term. This strategy may involve mergers and/or acquisitions in a different country than the Company operates in currently which would present further risks, including but not limited to risks regarding finding key personnel and establishing relationships with regulators, government officials and other key stakeholders.

Exploration, development and production risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Valeura will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Valeura may have at any particular time and the production therefrom will naturally decline over time as such existing reserves are produced and depleted. A future increase in Valeura's reserves will

depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. No assurance can be given that Valeura will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Valeura may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Valeura.
While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, natural declines as reserves are depleted and production or sales delays cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Valeura will not be fully insured against all of these risks, nor are all such risks insurable. Although Valeura will maintain liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Valeura could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations.

The Company is dependent on its directors, senior management team and employees with relevant experience

The Company is reliant on a number of key personnel. International exploration and development activities such as those the Company is engaged in require specialised skills and knowledge in the areas of petroleum engineering, geology, geophysics and drilling. In addition, specific knowledge and expertise relating to local laws (including regulations relating to land tenure, exploration, development, production, marketing, transportation, the environment, royalties and taxation) and market conditions is required to compete with other international oil and gas entities.

The success of Valeura will depend in large measure on certain key personnel and management. The Company also relies on certain key personnel in-country with the ability to work in the Turkish language and report to management in Canada. The loss of the services of such key personnel could have a material adverse effect on Valeura. Valeura does not have key person insurance in effect for members of management. The competition for qualified personnel in the oil and natural gas industry, particularly the international oil and gas industry in which Valeura operates, can be intense and there can be no assurance that Valeura will be able to attract and retain all personnel necessary for the development and operation of its business.

The loss of one or more of its key personnel could have an adverse impact on the business of the Company. Furthermore, it may be particularly difficult for the Company to attract and retain suitably qualified and experienced people, given the competition from other industry participants and the relative size of the Company.
In addition, the success of the Company's merger and acquisition strategy relies in part on the expertise of the directors and senior management in assessing new business and new country entry, which is specialized knowledge. The business relationships of directors and management can be helpful.

There is no assurance that the Company will successfully continue to retain existing specialised personnel and senior management or attract additional experienced and qualified senior management and/or oil and gas personnel required to successfully execute and implement the Company's business plan, which will be particularly important as the Company expands. Competition for such personnel is intense. The loss of such personnel and the failure to successfully recruit replacements in a timely manner, or at all, would have a material adverse effect on its business, prospects, financial condition and results of operations.

Failure to realise transactions and anticipated benefits related to mergers and acquisitions

Valeura has announced a strategy of growth through merger and acquisition in the near to mid-term. The Company will compete with numerous other companies in the search for and acquisition of oil and gas interests, whether through merger with another company or asset acquisition. The Company's competitors may include companies that have great financial resources, staff and facilities than those of the Company. The Company's ability to successfully bid on and acquire merger and/or acquisition targets will be dependent on its ability to selective and evaluate suitable properties and to consummate transactions in a highly competitive environment. Acquisitions of oil and natural gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquirer, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Company. All such assessments involve a measure of geologic, engineering, facility operations, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

The Pending Disposition carries risks related to closing the transaction. Government approval is required for the transaction, and the company cannot guarantee that approval will be obtained before the outside date of the transaction or that, if required the Company will be able to negotiate an extension to the outside date.

Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Valeura's ability to realise the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services.

Management of key relationships in Turkey

Failure to manage relationships with local communities, government and non-government organisations could adversely impact Valeura's business in Turkey. Negative community reaction to operations could have an adverse impact on profitability, the ability to finance or even the viability of Valeura in Turkey. This reaction could lead to disputes that may damage the Company's reputation and could lead to potential disruption of projects or operations.

Variations in foreign exchange rates and interest rates, and hedging

The Company's drilling and completion operations in Turkey and related contracts are based in U.S. Dollars. Material increases in the value of the U.S. Dollar will negatively impact the Company's costs of drilling and completions activity. The Company's functional currency in its subsidiary operations in Turkey is TL. The revenue stream in Turkey is based on TL revenue for natural gas and U.S. Dollar based revenue for crude oil translated into TL. The majority of costs will be incurred in U.S. Dollars for capital expenditures and TL for operating expenditures. Decreases in the value of the TL could result in decreases in revenue. Increases in the value of the TL and U.S. Dollar could result in increases in the cost of operations. To the extent that the Company engages in risk management activities related to foreign

exchange rates, there is a credit risk associated with counterparties with which the Company may contract. Valeura continues to assess its exposure to all foreign currencies. Recent volatility and weakness in the value of the TL may impair the ability of the Company to manage this exposure. Further devaluation of the TL without a corresponding increase in the BOTAS Reference Price will result in continued decreases in funds flow from operations and will affect the ability of the Company to fund its capital programme in the future from cash flow.

From time to time Valeura may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Valeura will not benefit from such increases and may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Given that Valeura's natural gas sales and revenues in Turkey are priced in TL, Valeura from time to time may enter into agreements to fix the exchange rate of U.S. Dollars to the TL in order to offset the risk of revenue losses. Valeura may similarly seek to fix the exchange rate between the TL and the U.S. Dollar to offset the risk of a relative strengthening of the U.S. Dollar, which is the currency basis for large portion of the capital expenditures in Turkey.

Estimates of reserves

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and future net revenue to be derived therefrom, including many factors beyond the control of Valeura. The proved and probable reserves and future net revenue information set forth herein represents estimates only.

The proved and probable reserves and estimated future net revenue from Valeura's properties have been independently evaluated by a third party, GLJ Petroleum Consultants Ltd. ("GLJ"). GLJ include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil, natural gas liquids and natural gas, operating costs, abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the proved and probable reserves. These assumptions were based on the respective price forecasts in use at the effective date of the GLJ Reserves Report and many of these assumptions are subject to change and are beyond the control of Valeura. Actual production and future net revenue derived therefrom will vary from these evaluations, and such variations could be material. The present value of estimated future net revenue referred to herein should not be construed as the current market value of estimated crude oil, natural gas liquids and natural gas reserves attributable to Valeura's properties. The estimated discounted future net revenue from proved and probable reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net revenue will also be affected by factors such as the amount and timing of actual production, supply and demand for crude oil and natural gas, curtailments or increases in consumption by purchasers and changes in governmental regulations or taxation.

The Company's operations may be harmful to the environment and the Company may be subject to compliance, clean-up and other costs

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of regulations in Turkey. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. In addition, many areas of the Thrace Basin are designated as prime agricultural land requiring land use approvals from both Agricultural and Energy and Natural Resources Ministries in Turkey. Currently, there are no restrictions on the hydraulic stimulation of wells in Turkey. However, a number of jurisdictions in Europe have temporarily or permanently banned hydraulic fracturing, a form of high-pressure stimulation, of wells and there is a risk that these restrictions may spread to other jurisdictions in the region, including Turkey. High pressure stimulation of tight gas formations is critical to achieving commercial production. Any future restrictions could have a material adverse effect on Valeura's business. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner

expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Valeura to incur costs to remedy such discharge. Although Valeura believes it is in material compliance with current applicable environmental and land use regulations, no assurance can be given that environmental laws or agricultural land use requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Valeura's financial condition, results of operations or prospects.

The Company's projects are subject to various Turkish environmental laws. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws.

Compliance with environmental laws and regulations may prevent the Company from commercially developing its operations

The cost and complexity of complying with the applicable environmental laws and regulations may prevent the Company from being able to develop potentially economically viable oil and gas operations.
Although the Company believes that it is in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spillages, leakages or other unforeseen circumstances, which could subject the Company to extensive costs and liability.

A violation of health and safety and/or environmental laws relating to oil and gas exploration, at a processing plant or in the course of transportation of hazardous materials, or a failure to comply with the instructions of the relevant authorities, could lead to, among other things, a temporary shutdown of all or a portion of the Company's exploration, processing or logistics operations, a loss of the Company's right to develop, exploit, operate a processing plant or transport products, or the imposition of costly compliance measures, criminal sanctions and/or monetary penalties. The Company will establish various committees, will implement safety and environmental compliance plans and contract officers and staff to oversee inspections and identify necessary corrective action. However, there can be no assurance that the Company's programmes will be effective, will comply with applicable laws or that costs of implementation will not increase significantly. If health and safety and/or environmental authorities were to require the Company to shut down all or a portion of its exploration, processing or logistics operations, or the more stringent enforcement of existing laws and regulations, such measures could have a material adverse effect on the Company's business, results of operation, financial condition and the price of the common shares.

There can be no assurances that new environmental laws, regulations or stricter enforcement policies, once implemented, will not oblige the Company to incur significant expenses and undertake significant investments in such respect, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Climate change legislation

Governments around the world have become increasingly focused on addressing the impacts of anthropogenic global climate change, particularly in the reduction of gases with the potential to contribute to greenhouse gas levels in the atmosphere. The oil and natural gas industry is subject to stringent environmental regulations. The political climate appears to favour new programs for environmental laws and regulation, particularly in relation to the reduction of emissions or emissions intensity, and there is a risk that any such programs, laws or regulations, if proposed and enacted, will contain emission reduction targets which may result in operating restrictions or compliance costs to avoid a breach of applicable legislation.

Climate change policy is emerging and quickly evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Implementation of strategies by any level of government within Turkey or countries the Company may operate in in the future, and whether to meet international agreed limits, or as otherwise determined, for reducing

greenhouse gases could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company, its operations, its financial condition and its ability to raise capital and its cost of capital. It is also not possible at this time to predict whether any proposed legislation relating to climate change will be adopted, and whether any such regulations could result in operating restrictions or compliance costs.

In addition to risks related to climate change legislation, Valeura also faces transition risks and physical risks in relation to climate change. Transition risks are risks that relate to the transition to a lower-carbon economy. Transition risks impact the volatility of oil and gas prices (as consumer demand for oil and gas may decrease); environmental legislation and hydraulic fracturing regulations (which may delay or restrict the development of oil and gas); the ability to obtain additional financing (as sources of financing for oil and gas development may become more restricted); and the reliance on key personnel, management, and labour (as the workforce may transition to other sources of energy development). Practices and disclosures relating to environmental matters, including climate change, are attracting increasing scrutiny by stakeholders. Valeura's response to addressing environmental matters can impact the Company's reputation and affect the Company's ability to hire and retain employees; to compete for reserve acquisitions, exploration leases, licenses and concessions; and to receive regulatory approvals required to execute operating programs. Physical risks relate to the physical impact of climate change, which can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks can have financial implications for the Company, such as direct damage to assets and indirect impacts from production disruptions. Physical risks may also increase Valeura's operating costs.

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 the Company's work force is impacted. Such an outbreak, if uncontrolled, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Economic activity slowed down in Turkey in Q2 2020, resulting in reduced gas demand from some of Valeura's light industrial customers. However, in Q3 2020, operations in Turkey have returned to normal for the most part, with COVID-19 related restrictions being eased. 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 were able to proceed normally; however, the Company did suspend non-critical field work, including workovers and redevelopment of existing wells, and implemented work-from-home arrangements as needed during 2020. As of the date of this MD&A, the Company has resumed production enhancement work, including workovers and production testing of its two recently drilled shallow exploration commitment wells. The COVID-19 pandemic is an evolving situation that may continue to have widespread implications for the Company's business environment, operations, and financial conditions. Management cannot reasonably estimate the length or severity of this pandemic and will continue to monitor the situation closely.

The COVID-19 pandemic has also contributed to the devaluation of the TL compared to the USD, which has negatively impacted the Company's results. As previously discussed, the BOTAS Reference Price is denominated TL and has historically behaved in a similar manner to the regional price for natural gas when translated to the USD. BOTAS introduced regular price updates to the natural gas price since mid-2018 and analysis suggests that these price adjustments have taken into account variations in the regional price of natural gas, and changes in the TL exchange rate, notwithstanding periodic time lags. 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. On July 1, 2020 the BOTAS reference price (in TL) was reduced by 10% despite further devaluation of the TL.

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: the completion of the Pending Transaction; the total consideration from the Pending Transaction; the receipt of regulatory approvals and other governmental authorisations relating to the Pending Transaction; anticipated timing to close the Pending Transaction; the ability of the Company to negotiate an extension to the outside date of the Pending Disposition if required; the 2021 work programme and capital budget; the Company's farm-out process for the Deep Gas Play continuing; management's belief regarding the potential of the Company's Deep Gas Play; the Company's ability to find another partner for the Deep Gas Play appraisal programme and realise other growth opportunities through potential mergers and acquisitions; the Company's commitment to safety, environmentally responsible practices and optimising operational and administrative functions; and the Company's business strategy and outlook, operational plans, and expected capital expenditures.

Forward-looking information is based on management's current expectations and assumptions regarding, among other things: the ability to close the Pending Transaction on the terms described herein; the continuation of operations during 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; continued operations of and approvals forthcoming from the Turkish Government in a manner consistent with past conduct; future seismic and drilling activity on the expected timelines; the prospectivity of the TBNG JV Lands and Banarli Exploration Licences, including the Deep Gas Play 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: uncertainty in capital markets and ability to raise debt and equity, as required, particularly for companies with a small market capitalisation; the ability to finance future development and/or inorganic growth; 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; 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 2020 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.