MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2021 and 2020

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of May 12, 2021 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month period ended March 31, 2021 and 2020. 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

Valeura's unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2020. The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2020 audited consolidated financial statements, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements, which have been condensed or omitted in the interim statements.

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, reserves, environmental and decommissioning obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

Any financial outlook or future oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of Valeura. 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.

Assets Held for Sale

The March 31, 2021 financial statements 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 Pending Transaction (as defined below) 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 Transaction, 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.

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

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2021	March 31, 2020
Financial		
Petroleum and natural gas sales	**$ 2,086**	$ 2,808
Net loss	**(1,061)**	(192)
Per share, basic and diluted	**(0.01)**	(0.00)
Adjusted funds flow (used)[1]	**(693)**	52
Per share, basic and diluted	**(0.01)**	0.00
Cash provided by (used in) operating activities	**(448)**	$ 811
Production volumes		
Natural gas (Mcf/d)	**4,008**	4,200
Crude oil (bbl/d)	**16**	17
Total (boe/d)	**684**	716
Sales prices		
Natural gas (per Mcf)	**$ 5.52**	$ 7.08
Crude oil (per bbl)	**68.41**	65.22
Total (per boe)	**33.92**	43.03
Exploration and development capital	**140**	1,882
Working capital[2]	**39,331**	34,054
Cash	**$ 29,384**	$ 32,554
Weighted average shares outstanding		
Basic and diluted (thousands)[3]	**86,585**	86,585

Outstanding Share Data

	March 31, 2021
Common shares	86,584,989
Stock options	6,999,333
Fully diluted	93,584,322

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

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

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

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 under the trading symbol "VLE" and on the London Stock Exchange, 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 in 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, 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 between 2017 and 2020, 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 a two-year extension of the exploration period for the West Thrace Exploration Licence and Banarli Exploration Licences, which now have an expiry date of 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 in the Banarli Exploration Licences, West Thrace Exploration Licence and West Thrace Production Leases 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 $1 million to $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 assets held by these two subsidiaries are classified as "Assets Held for Sale" in the Consolidated Statement of Financial Position as of March 31, 2021. In a subsequent development, all regulatory approvals for the Pending Transaction were received in early May 2021 and the transaction is now expected to close in 2021.

As at March 31, 2021, 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.

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

		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

Through 2020 and in 2021 to date the Company was able to maintain its gas production in Turkey during the various periods of lockdowns and curfews related to COVID-19. Staffing was reduced and additional safety and health measures were introduced across all operations.

In Q1 2021, 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 licence commitments. Both wells encountered gas and the first, which was proximal to facilities, has been tied in and is currently on production.

As a result of 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 compared 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 drilling approval.

Valeura commenced a farm-out process of the Deep Gas Play in Q4 2020. As of the date hereof, 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, remain engaged in the search for a new partner.

Valeura has the right to maintain the Deep Gas Play for up to another five years at relatively low holding costs. In 2021, the Company will monitor the strengthening in commodity prices and the oil and gas industry as a whole 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 and are a significant focus for the Company in 2021.

Business Environment

Production and all field-based operations have continued to be complicated during Q1 2021, 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 and to manage COVID-19 related business risks in accordance with its enterprise risk management approach.

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.

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

Results of Operations

	Three months ended	
	March 31, 2021	March 31, 2020
Petroleum and natural gas sales	**$ 2,086**	$ 2,808
Royalties	**(279)**	(378)
Production costs	**(770)**	(801)
Operating netback[4]	**1,037**	1,629
Other income	**129**	268
General and administrative expenses	**(1,658)**	(1,230)
Severance	**(146)**	(450)
Transaction costs	**(44)**	-
Realised foreign exchange loss	**11**	(165)
Current tax expense	**(22)**	-
Adjusted funds flow (used) [5]	**(693)**	52
Non-cash expenses		
Share-based compensation	**76**	(157)
Accretion on decommissioning liabilities	**(277)**	(218)
Unrealised foreign exchange gain (loss)	**(755)**	1,482
Depletion and depreciation	**(7)**	(1,278)
Change in estimate on decommissioning liabilities	**709**	-
Deferred tax expense	**(114)**	(73)
Net loss	**$ (1,061)**	$ (192)

Sales Volumes

	Three months ended	
	March 31, 2021	March 31, 2020
Natural gas (Mcf/d)	**4,008**	4,200
Crude oil (bbl/d)	**16**	17
Total (boe/d)	**684**	716

Sales volumes of 684 barrels of oil equivalent per day ("boe/d") in Q1 2021 were down slightly when compared to the same period in 2020 as a result of natural declines, though partially offset by successful workover activities in 2020.

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

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

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

Pricing Information

	Three months ended	
Average reference prices	**March 31, 2021**	March 31, 2020
Natural gas – BOTAS (per Mcf)[6]	**TL 40.24**	TL 43.67
Natural gas – BOTAS (per Mcf)	**$ 5.57**	$ 7.17
Average exchange rate (TL/USD)	**7.22**	6.09

	Three months ended	
Average realised prices	**March 31, 2021**	March 31, 2020
Natural gas (per Mcf)	**$ 5.52**	$ 7.08
Crude oil (per bbl)	**68.41**	65.22

The Turkish Lira ("TL") exchange rate experienced a large drop at the end of the quarter, resulting in a devaluation between December 31, 2020 and March 31, 2021 of approximately 13% against the US dollar. Prior to this drop near the end of Q1 2021, the TL had been recovering, such that the average exchange rate to USD in Q1 2021 indicates an appreciation of approximately 7% compared to the average exchange rate to USD in Q4 2020. Valeura's reference price for gas sales, BOTAS level 2 wholesale (processing) gas price ("BOTAS Reference Price"), is quoted in TL. The BOTAS Reference Price has been increased on each of January 1, February 1 and March 1 during 2021, for a total increase to March 31, 2021 of approximately 3% since December 31,2020. While Valeura's average realised gas price for Q1 2021 has increased by approximately 9% compared to Q4 2020 ($5.52 per Mcf- Q1 2021 average realised natural gas price; $5.02 per Mcf Q4-2020 average realised natural gas price), pricing is facing increased volatility from factors influencing the relative value of the TL. Inflation at the end of Q1 2021 in Turkey was approximately 16%.

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 Turkish Government will continue this policy in the future.

In Q1 2021, the Company's average realised natural gas price in Turkey of $5.52 per Mcf represents a 1.0% discount to the BOTAS Reference Price for that period.

[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.

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

Petroleum and Natural Gas Sales Revenues

	Three months ended	
	March 31, 2021	March 31, 2020
Natural gas	**$ 1,991**	$ 2,706
Crude oil	**95**	102
Total revenues	**$ 2,086**	$ 2,808

Petroleum and natural gas sales revenues for Q1 2021, were 95% natural gas and 5% condensate (classified as crude oil). Variations in the amount of condensate produced is primarily due to how many liftings occur in the quarter. Revenues in Q1 2021 decreased in comparison to Q1 2020 due primarily to the weakening of the TL compared to the USD and lower sales volumes.

Royalties

	Three months ended	
	March 31, 2021	March 31, 2020
Royalties	**$ 279**	$ 378
Percentage of revenue	**13.5%**	13.5%

Royalties in Q1 2021 decreased in comparison to the same period in 2020 as a result of lower petroleum and natural gas sales revenues. Revenues are subject to a 12.5% government royalty and an overriding royalty only on the TBNG JV lands of 1%.

Production Costs

	Three months ended	
	March 31, 2021	March 31, 2020
Production costs	**$ 770**	$ 801
$ per boe	**12.52**	12.28

Production costs in Q1 2021 are comparable to Q1 2020. The slightly higher unit production costs in Q1 2021 in comparison to the same period in 2020 are reflective of the level of fixed costs included in total operating costs and lower gross production from the TBNG JV Lands and Banarli Exploration Licences.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2021	March 31, 2020
Petroleum and natural gas sales	**$ 33.92**	$ 43.03
Royalties	**(4.54)**	(5.80)
Production costs	**(12.52)**	(12.28)
Operating netback[7]	**$ 16.86**	$ 24.95

Operating netbacks for Q1 2021 decreased in comparison to the same period in 2020 due primarily to reduced gas prices.

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

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

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

General and Administrative Expenses

	Three months ended	
	March 31, 2021	March 31, 2020
General and administrative expenses	**$ 1,740**	$ 1,912
Recoveries and capitalised general administrative expenses	**(82)**	(682)
Net general and administrative expenses	**1,658**	1,230

General and administrative expenses before recoveries in Q1 2021 decreased when compared to the same period in 2020 due to reductions in staffing levels at head office and other measures undertaken by the company during 2020 to reduce costs. The increased net G&A expenses is due to a reduction in overhead recoveries as a result of lower capital activity in 2021 as compared to 2020 and Valeura now holding much higher working interest in the Deep Gas Play. In line with normal practices, annual bonuses are recorded in the first quarter of each year which typically results in the Q1 period being the highest quarterly G&A expenses for the year.

Transaction Costs

During Q1 2021, the Company recorded transaction costs of $0.04 million compared to $nil for the same period in 2020. The Q1 2021 transaction costs are fees associated with the Pending Transaction.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q1 2021 was a loss of $0.7 million compared to a gain of $1.3 million for the same period in 2020.

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 March 31, 2021:

+/- 5% change in realised TL/USD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended March 31, 2021	$ 111	$ 14	$ 39

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

Changes to the TL/USD exchange rate would have had the following impact on capital expenditures for the three months ended March 31, 2021:

+/- 5% change in realised TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended March 31, 2021	$ 1

Other Income

	Three months ended	
	March 31, 2021	March 31, 2020
Third party natural gas sales net of costs	**$ 83**	$ 101
Interest and other revenue	**46**	167
Other Income	**$ 129**	$ 268

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 Q1 2021 as a result of lower gas demand 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 Q1 2021.

Current Tax

Current tax for Q1 2021 was an expense of $0.02 million compared to an expense of $nil for the same period in 2020. The current tax expense in Q1 2021 represents taxes due related to normal operating activities in Turkey.

Adjusted Funds Flow

Adjusted funds flow for Q1 2021 was an outflow of $0.8 million compared to an inflow of $0.1 million for the same period in 2020. The decrease in adjusted funds flow in Q1 2021 was due to lower volumes, realised prices, other income and higher net general and administrative expenses.

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

	Three months ended	
	March 31, 2021	March 31, 2020
Cash provided by (used in) operating activities	**$ (448)**	$ 811
Decommissioning costs incurred	**-**	16
Change in restricted cash	**2**	-
Change in non-cash working capital	**(247)**	(775)
Adjusted funds flow (used)[8]	**$ (693)**	$ 52

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

[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.

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 Q1 2021 was a recovery of $0.1 million compared to an expense of $0.2 million for the same period in 2020. The Company granted 2,262,500 options with a weighted average exercise price of $0.52 per share in Q1 2021.

Accretion on Decommissioning Liabilities

Accretion on decommissioning liabilities for Q1 2021 was $0.3 million compared to $0.2 million for the same period in 2020. The increase is due to higher levels of inflation in Q1 2021 in comparison to Q1 2020.

Depletion and Depreciation

Depletion and depreciation for Q1 2021 was $0.01 million compared to $1.3 million for the same period in 2020. The decrease in Q1 2021 was the result of transferring shallow conventional gas assets to assets held for sale on October 20, 2020. No depletion on the shallow conventional gas assets was calculated after the transfer to assets held for sale.

Change in Estimate on Decommissioning Liabilities

In Q1 2021, the Company recorded a recovery of $0.7 million related to the change in estimate on the Company's decommissioning obligations. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future years. The change in estimate is mainly due to a revision in the cost estimates for abandonment and reclamation, an increase in the risk-free interest rate in Turkey (March 31, 2021 – 18.1%; December 31, 2020 – 12.5%) and an increase in the inflation rate in Turkey (March 31, 2021 – 16.2%; December 31, 2020 – 14.6%).

Deferred Tax

Deferred tax for Q1 2021 was an expense of $0.1 million compared to an expense of $0.1 million for the same period in 2020. Deferred tax relates to changes in the temporary difference between the net book value and the tax basis of the assets and liabilities in the Company's Turkish operations.

Currency Translation Adjustments

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

The currency translation adjustment for Q1 2021 was a loss of $0.7 million compared to a loss of $5.8 million for the same period in 2020 reflecting the fluctuation in the value of the TL compared to the USD in the respective periods.

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

The currency translation adjustment loss for Q1 2021 relates to the devaluation of the TL compared to the USD during Q1 2021.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended	
	March 31, 2021	March 31, 2020
Geological and geophysical	**$ 50**	$ 246
Drilling & completions	**88**	1,157
Workovers & recompletions	**1**	372
Equipping, facilities & other	**1**	107
Total net capital [9]	**$ 140**	$ 1,882

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.

Given the Pending Transaction and the search for a partner on the Deep Gas Play, capital activities in Q1 2021 have been limited.

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.

[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.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2021	March 31, 2020
Opening cash position	**$ 30,143**	$ 36,111
Inflow of funds		
Changes in non-cash working capital[10]	**75**	-
Foreign exchange on cash	**29**	-
Adjusted funds flow[11]	**-**	52
	104	52
Outflow of funds		
Capital expenditures[12]	**(140)**	(1,882)
Decommissioning costs incurred	**-**	(16)
Principal payment on lease	**(28)**	(24)
Restricted cash	**(2)**	(14)
Adjusted funds flow (used) [11]	**(693)**	
Changes in non-cash working capital[10]	**-**	(271)
Foreign exchange on cash	**-**	(1,402)
	(863)	(3,609)
Closing cash position	**$ 29,384**	$ 32,554

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 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.

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

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

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

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 (2020 - $0.2 million) that is securing licence deposits with the 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.

The Company's APSG facility with Export Development Canada ("EDC") is effective from March 17, 2020 to May 31, 2021 with a limit of $4.5 million and can be renewed on an annual basis. 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, with a limit of $4.5 million and can be renewed on an annual basis. The Company has issued approximately $2.9 million in letters of credit under the APSG facility at current exchange rates.

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

Selected Quarterly Information

	Three months ended			
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Total daily production (boe/d)	684	707	615	561
Average wellhead price ($/boe)	$ 33.92	$ 30.43	$ 32.57	$ 37.57
Petroleum and natural gas sales	2,086	1,978	1,843	1,918
Cash provided by (used in) operating activities	(448)	(1,035)	(1,113)	1,192
Adjusted funds flow (used) [13]	(693)	(335)	(1,210)	339
Per share, basic and diluted	(0.01)	(0.00)	(0.01)	0.00
Net loss	(1,061)	(15,294)	(2,149)	(1,899)
Per share, basic and diluted	$ (0.01)	$ (0.18)	$ (0.02)	$ (0.02)

	Three months ended			
	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Total daily production (boe/d)	716	646	531	700
Average wellhead price ($/boe)	$ 43.03	$ 44.60	$ 44.32	$ 38.28
Petroleum and natural gas sales	2,808	2,653	2,166	2,440
Cash provided by (used in) operating activities	811	2,286	600	(1,007)
Adjusted funds flow (used) [14]	52	1,595	1,032	773
Per share, basic and diluted	0.00	0.02	0.02	0.01
Net loss	(192)	(735)	(166)	(1,605)
Per share, basic and diluted	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)

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 Play assets in 2020, which resulted in the significant loss reported in Q4 2020; and
- 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 10.

Critical Accounting Policies

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to Valeura's December 31, 2020 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2021 and ending on March 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2021.

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

All risk factors have not materially changed from December 31, 2020. The reader is referred to Valeura's December 31, 2020 audited consolidated financial statements, MD&A and 2020 AIF for a description of these risks.

Forward-looking Statements

Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is for the purpose of explaining management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project", "target" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to: the completion of the Pending Transaction; the total consideration from the Pending Transaction; anticipated timing to close the Pending Transaction; 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 ability to have new appraisal well locations approved by the Turkish Government; 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, hydraulic 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: inability to close the Pending Transaction; inability to secure a new partner for Deep Gas Play and execute potential mergers and acquisitions; 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.