valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 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 August 4, 2021 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the notes for the three and six month periods ended June 30, 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.

Non-GAAP Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "operating netback" (petroleum and natural gas sales less royalties, production expenses and transportation costs), and "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)

The Company

Valeura is a Canada-based public company. The Company has been active in Turkey for more than 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. 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 play ("Deep Gas Play").

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 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. Equinor exited the play in Q2 2020, and the Company is currently conducting a search for a new partner.

On May 26, 2021, the Company closed the sale of its shallow conventional gas business for total cash consideration (including closing working capital and effective date adjustments) of $16.85 million, plus royalty payments of an additional $1 million to $2.5 million (the "Transaction"). The Transaction was structured as a sale of all the issued and outstanding shares of its wholly owned subsidiaries, Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Corporate Resources B.V. ("CRBV"), who own the conventional shallow gas assets. The assets related to the Deep Gas Play were retained by Valeura and held in its wholly owned subsidiary, Valeura Energy Netherlands B.V. ("VENBV").

As at June 30, 2021, the Company held operatorship and deep rights on six exploration licences and production leases in the Thrace Basin comprising approximately 0.24 million gross acres and 0.20 net acres, as shown in the table below. The West Thrace Exploration Licence and Banarli Exploration Licences have an expiry date of June 27, 2022. The licenses are in the first of three possible two-year extensions providing a period of up to five 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.

	# licenses/leases	Gross Acres	WI	Net Acres
West Thrace Production Leases	3	13,578	63%	8,554
Banarli Exploration Licences	2	133,840	100%	133,840
West Thrace Exploration Licence	1	88,434	63%	55,713
Total	**6**	**235,852**		**198,107**

The Company is currently focussed on continued appraisal of the Deep Gas Play in Turkey and seeking new opportunities to utilise its strong cash position to grow the business through mergers and acquisitions.

Operations and Outlook

Production Operations

The Transaction, which sold all natural gas and crude oil production, closed on May 26, 2021.

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 sustainable commercial gas flow rates was to drill in locations where the dry gas (no condensate) maturity window is coincident with the best reservoir. 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. Appraisal well locations have been selected and have been submitted to the Turkish Government for drilling approval.

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.

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

Business continues to be complicated by the effects of the global COVID-19 pandemic. Identifying and progressing new business opportunities has been most significantly affected given the restrictions on travel and meetings. The Company will continue to monitor conditions associated with COVID-19, including the safety of personnel, the security situation generally, the impact on the Turkish and global economy and the knock-on effects on the Turkish Lira "TL" and the Company's banking facilities.

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

Results of Operations

In the table below, a number of the items are based on production data and the associated costs and revenue. Given the close of the Transaction on May 26, 2021, many of the items cannot be directly compared between 2020 and 2021 as there was not a full quarter of production in 2021. Please see the "The Transaction" below for a discussion of the gain on sale and transfer of accumulated translation losses.

	Three months ended		**Six months ended**	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Petroleum and natural gas sales	**$ 1,040**	$ 1,918	**$ 3,126**	$ 4,726
Royalties	**(144)**	(258)	**(423)**	(636)
Production costs	**(444)**	(881)	**(1,214)**	(1,682)
Operating netback[1]	**452**	779	**1,489**	2,408
Other income	**103**	101	**232**	369
General and administrative expenses	**(1,049)**	(911)	**(2,707)**	(2,141)
Severance	**-**	-	**(146)**	(450)
Transaction costs	**(25)**	-	**(69)**	-
Gain on settlement	**-**	332	**-**	332
Realised foreign exchange gain (loss)	**19**	38	**30**	(127)
Current tax recovery (expense)	**(19)**	-	**(41)**	-
Adjusted funds flow[2]	**(519)**	339	**(1,212)**	391
Gain on disposition	**6,134**	-	**6,134**	-
Non-cash expenses				
Share-based compensation	**(95)**	(254)	**(19)**	(411)
Accretion on decommissioning liabilities	**(189)**	(241)	**(466)**	(459)
Unrealised foreign exchange gain (loss)	**313**	(853)	**(442)**	629
Transfer of accumulated currency translation on subsidiaries disposed	**(67,005)**	-	**(67,005)**	-
Change in estimate on decommissioning liabilities	**(45)**	-	**664**	-
Depletion and depreciation	**(7)**	(944)	**(14)**	(2,222)
Deferred tax recovery (expense)	**(120)**	54	**(234)**	(19)
Net loss	**$ (61,533)**	$ (1,899)	**$ (62,594)**	$ (2,091)

[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.

[2] 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.

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

Outstanding Share Data

	June 30, 2021
Common shares	86,584,989
Stock options	6,694,333
Fully diluted	93,279,322

Results of Shallow Production Operations to May 26, 2021

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Petroleum and natural gas sales	**$ 1,040**	$ 1,918	**$ 3,126**	$ 4,726
Royalties	**(144)**	(258)	**(423)**	(636)
Production costs	**(406)**	(881)	**(1,191)**	(1,682)
Operating netback[3]	**490**	779	**1,512**	2,408
Third party natural gas sales net of costs	**69**	24	**152**	125
Capital Expenditures	**$ 91**	$ 1,734	**$ 163**	$ 3,616

The Company's 2021 petroleum and natural gas sales, royalties and third-party natural gas sales were all related to the shallow operations. A small portion of production costs were related to the Company's deep wells and have been removed from the production costs line above (three months ended June 30, 2021 - $0.04 million, six months ended June 30, 2021 - $0.02 million).

Sales Volumes

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Natural gas (Mcf/d)	**3,684**	3,260	**3,884**	3,730
Crude oil (bbl/d)	**-**	18	**10**	17
Total (boe/d)	**614**	561	**657**	639

Average daily sales volumes for the 2021 three and six month periods presented are based on 56 and 146 days, respectively as opposed to 91 and 182 days for the 2020 results. Average daily natural gas sales volumes for the three and six month periods ended June 30, 2021 are higher than the same periods in 2020 due to the effects of the global pandemic in 2020 lowering sales in those periods.

Pricing Information

	Three months ended		Six months ended	
Average reference prices	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
Natural gas – BOTAS (per Mcf)[4]	**TL 41.46**	TL 43.67	**TL 40.85**	TL 43.67
Natural gas – BOTAS (per Mcf)	**$ 5.09**	$ 6.37	**$ 5.40**	$ 6.76
Average exchange rate (TL/USD)	**8.15**	6.86	**7.56**	6.46

[3] 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.

[4] 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)

	Three months ended		Six months ended	
Average realised prices	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
Natural gas (per Mcf)	**$ 5.04**	$ 6.24	**$ 5.35**	$ 6.71
Crude oil (per bbl)	**$ -**	$ 41.65	**$ 68.41**	$ 53.25

The gas sales price is lower in the three and six month periods ending June 30, 2021 primarily because the TL declined 14% against the USD between Q2 2020 and Q2 2021.

Summary of Ongoing Operations

	Six months ended
	June 30, 2021
Other income	**$ 80**
General and administrative expenses	**(2,006)**
Operating costs	**(61)**
Share-based compensation	**(19)**
Accretion on decommissioning liabilities	**(109)**
Change in estimate on decommissioning liabilities	**664**
Depletion and depreciation	**$ (14)**

Royalty Revenue

As part of the Transaction, Valeura received deferred consideration is in the form of a cash royalty payable over five years, tied to local gas prices, with a minimum payment of $1 million and a maximum of $2.5 million. The royalty is calculated monthly and payable quarterly, if applicable.

There was no royalty payable related to the deferred consideration for the three and six month period ending June 30, 2021.

General and Administrative Expenses

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
General and administrative expenses	**$ 1,131**	$ 1,357	**$ 2,838**	$ 3,269
Recoveries and capitalized general Administrative expenses	**(82)**	(446)	**(131)**	(1,128)
Total general and administrative expenses	**$ 1,049**	$ 911	**$ 2,707**	$ 2,141

General and administrative (G&A) expenses before recoveries in 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.

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

The 2021 G&A as presented includes all of the G&A costs associated with the shallow production operations up to the close of the Transaction on May 26th, 2021. The table below breaks out these costs and shows the amount of G&A associated with ongoing operations.

General and Administrative Expenses Breakout	**Six months ended**
	June 30, 2021
Shallow sale operations	**$ 701**
Ongoing operations	**2,006**
Total general and administrative expenses	**$ 2,707**

Transaction Costs

Transactions costs for the three and six months ended June 30, 2021, were $0.04 million and $0.07 million respectively compared to nil in the same periods in 2020. The 2021 transaction costs are fees associated with the Transaction.

Foreign Exchange

Foreign exchange (realised and unrealised) for three and six months ended June 30, 2021, was a gain of $0.3 million and a loss of $0.4 million, respectively, compared to a loss of $0.8 million and a gain of $0.5 million, respectively, for the same periods 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.

Future USD/TL exchange rates could accordingly impact the future value of any 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.

The Company's general and administrative costs are mostly denominated in Canadian dollars ("CAD"). The Canadian dollar appreciated against the USD in Q2 2021, with the average exchange against the USD increasing by approximately 3%.

The TL continued to devalue against the USD, declining approximately 3% during Q2 2021.

Other Income

	Three months ended		**Six months ended**	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Third party natural gas sales net of costs	**$ 69**	$ 24	**$ 152**	$ 125
Interest and other revenue	**34**	77	**80**	244
Other Income	**$ 103**	$ 101	**$ 232**	$ 369

Other income is comprised of third-party processing and marketing income and interest income related to cash on hand. The third-party natural gas sales were all related to shallow operations and the majority of the interest and other revenue are from ongoing operations.

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 in Q2 2021.

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

Current Tax

Current tax for the three and six months ended June 30, 2021, was $0.02 million and $ 0.04 respectively compared to $nil for the same periods in 2020. The current tax expense in 2021 represents taxes due related to normal operating activities in Turkey and is all related to shallow operations.

Adjusted Funds Flow

Adjusted funds flow for the three and six months ended June 30, 2021, was and outflow of $0.5 million and $1.2 million, respectively, compared to an inflow of $0.3 million and $0.4 million, respectively, for the same periods in 2020. The decrease in adjusted funds flow in Q2 2021 was due to lower volumes (producing days pre-closing of the shallow asset sale), 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		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Cash from (used) in operating activities	**$ (677)**	$ 1,192	**$ (1,125)**	$ 2,003
Decommissioning costs incurred	**-**	1	**-**	17
Change in restricted cash	**(217)**		**(215)**	
Change in non-cash working capital	**375**	(854)	**128**	(1,629)
Adjusted funds flow (used) [5]	**$ (519)**	$ 339	**$ (1,212)**	$ 391

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

The Transaction

On May 26, 2021, the Company closed the sale of its shallow conventional gas business for cash consideration (including closing working capital and effective date adjustments) of $16.85 million, deferred cash consideration valued at $1.0 million, with an economic effective date of July 1, 2020. The disposition resulted in a gain on disposal of $6.1 million and a currency translation loss of $67.0 million.

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 in the equity section of the balance sheet. Upon disposal or partial disposal of a subsidiary with foreign exchange gains or losses related to foreign currency translation, the gains and losses on foreign currency translation included in AOCI are reclassified as part of the current period net loss.

The functional currency of CRBV and TBNG is the TL and Valeura's reporting currency is USD. The $67.0 million net loss reclassified from AOCI to current period net loss represent accumulated translation adjustments to reported

[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.

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USD balances from the inception of investment in 2011 and 2017, respectively. During this period the Turkish Lira declined in value more than 80% from approximately 1.6:1.0 in 2011 to 8.5:1.0 in 2021.

	June 30, 2021
Cash proceeds	16,543
Retention	310
Royalty receivable	1,041
Total consideration	**$ 17,894**
Cash Disposed	2,185
Net working capital disposed	773
Other net assets disposed	8,802
Total net assets disposed	**$ 11,760**
Gain on disposition	**$ 6,134**
Currency translation loss transferred on subsidiaries disposed	**(67,005)**
Total loss on disposition	**$ (60,871)**

Non-cash Expenses:

Currency Translation Adjustment

The currency translation adjustment for the three and six months ended June 30, 2021, was a loss of $0.2 million and $6.1 million, respectively, compared to a loss of $0.7 million and $1.3 million, respectively, for the same periods in 2020 reflecting the fluctuation in the value of the TL and CAD compared to the USD in the respective periods. A net loss of $67.0 million was transferred to net earnings upon close of the Transaction.

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 the three and six months ended June 30, 2021, was $0.1 million and $0.02 million, respectively, compared to $0.3 million and $0.4 million, respectively, for the same periods in 2020.

Change in Estimate and Accretion on Decommissioning Liabilities

In 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 (June 30, 2021 – 17.6%; December 31, 2020 – 12.5%) and an increase in the inflation rate in Turkey (June 30, 2021 – 16.6%; December 31, 2020 – 14.6%).

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

Liquidity, Financing and Capital Resources

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Opening cash position	**$ 29,384**	$ 32,554	**$ 30,143**	$ 36,111
Inflow of funds				
Restricted cash	**217**	-	**215**	-
Disposition	**14,358**		**14,358**	
Foreign exchange on cash	**152**	71	**181**	-
Adjusted funds flow[6]	**-**	339	**-**	391
	14,727	410	**14,754**	391
Outflow of funds				
Capital expenditures[7]	**(179)**	(1,734)	**(319)**	(3,616)
Decommissioning costs incurred	**-**	(1)	**-**	(17)
Payments on leases	**-**	(17)	**(28)**	(41)
Restricted cash	**-**	(1)	**-**	(15)
Adjusted funds flow (used) [6]	**(519)**	-	**(1,212)**	-
Change in non-cash working capital[8]	**(787)**	(742)	**(712)**	(1,013)
Foreign exchange on cash	**-**	-	**-**	(1,331)
	(1,485)	(2,495)	**(2,271)**	(6,033)
Closing cash position	**$ 42,626**	$ 30,469	**$ 42,626**	$ 30,469

Capital Management

The Company's capital structure includes working capital and shareholders' equity. Currently, total capital resources available are working capital and the Company is in a strong position given its significant cash position of $42.6 million. The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through acquisitions and expenditures on exploration and development activities while maintaining a strong financial position.

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

[6] 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.

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

[8] 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.

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

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.

The Company's Account Performance Security Guarantee ("APSG") facility with Export Development Canada is effective from June 16, 2021, to May 31, 2022, with a limit of $0.25 million and can be renewed on an annual basis. The APSG facility, which was issued to the National Bank of Canada ("NBC") on the Company's behalf, allows the Company to use the facility as collateral for certain letters of credit issued by NBC, with a limit of $0.25 million and can be renewed on an annual basis. The Company has issued approximately $0.18 million in letters of credit under the APSG facility at current exchange rates.

Selected Quarterly Information

	Three months ended			
	June 30, 2021	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**
Total daily production (boe/d)	614	684	707	615
Average wellhead price ($/boe)	$ 30.24	$ 33.92	$ 30.43	$ 32.57
Petroleum and natural gas sales	1,040	2,086	1,978	1,843
Cash provided by (used in) operating activities	(677)	(448)	(1,035)	(1,113)
Adjusted funds flow (used) [9]	(519)	(693)	(335)	(1,210)
Per share, basic and diluted	(0.01)	(0.01)	(0.00)	(0.01)
Net loss	(61,533)	(1,061)	(15,294)	(2,149)
Per share, basic and diluted	$ (0.71)	$ (0.01)	$ (0.18)	$ (0.02)
	Three months ended			
	June 30, 2020	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**
Total daily production (boe/d)	561	716	646	531
Average wellhead price ($/boe)	$ 37.57	$ 43.03	$ 44.60	$ 44.32
Petroleum and natural gas sales	1,918	2,808	2,653	2,166
Cash provided by (used in) operating activities	1,192	811	2,286	600
Adjusted funds flow (used) [9]	339	52	1,595	1,032
Per share, basic and diluted	0.00	0.00	0.02	0.02
Net loss	(1,899)	(192)	(735)	(166)
Per share, basic and diluted	$ (0.02)	$ (0.00)	$ (0.01)	$ (0.00)

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

[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.

- The Company sold the shallow conventional gas assets in Q2 2021, resulting in the transfer of a large currency translation loss from AOCI to current period earnings; and
- 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.

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 April 1, 2021, and ending on June 30, 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 June 30, 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 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: political stability of the areas in which the Company is operating and completing transactions; continued operations of and approvals forthcoming from the Turkish Government in a manner consistent with past conduct; the prospectivity of the Deep Gas Play; 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 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.