valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 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 November 11, 2021 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three and nine month periods ended September 30, 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), is a non-GAAP measure and does not have a standardised meaning prescribed by GAAP and are therefore may not be comparable to similar measures used by other issuers. The Company uses this supplemental non-GAAP measure to assist readers in evaluating operating performance. The Company considers operating netback an important measure as it demonstrates its profitability level relative to current commodity prices.

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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 the Company's wholly owned subsidiaries, Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Corporate Resources B.V. ("CRBV"), which 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 September 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 and seeking new opportunities to utilise its strong cash position to grow its business through mergers and acquisitions.

Operations and Outlook

Production Operations

The Transaction, which sold all of the Company's natural gas and crude oil production, closed on May 26, 2021. The Transaction includes contingent consideration in the form of a royalty on the production from the assets which were sold based on the realised price of gas. This royalty arrangement is limited to five years and is capped at a maximum of $2.5 million. With the increasing price of gas in the latter half of 2021, Valeura recognised its first royalty payment for September 2021. The royalty is more fully discussed under the Transaction.

Deep Gas Play

In 2020, Valeura completed production testing of its third deep well, 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 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. The licences carry work commitments which must be completed by June 2022 to allow for the next two year extension. The Company has been monitoring the recent strengthening in commodity prices and an improving oil and gas industry as a whole and sees this as an opportunity to rejuvenate its partnering search.

New Business

Valeura continues to investigate new business opportunities where it believes it can leverage its strong balance sheet, cash position and experience 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 remain the significant focus for the Company.

Business Environment

The Company's business continues to be complicated by the effects of the global COVID-19 pandemic given the restrictions on travel and in person meetings. The situation has improved throughout Q3 2021 with recent relaxing in restrictions in many parts of the world.

The Company also acknowledges the ongoing weakening in the value of the Turkish Lira ("TL"), relative to international currencies including the US dollar, which is the Company's reporting currency. A weaker TL implies a lower value for assets denominated in that currency, including future sales of natural gas. However, the Company notes the long-standing approach by Turkish regulators to adjust the reference price for Turkish natural gas, reflecting regional natural gas price trends, effectively offsetting the impact of changes in foreign exchange. Accordingly, the Company believes the value of its petroleum and natural gas resources in Turkey (being the only material assets held by Valeura in the country) are not materially affected in the long-term by ongoing weakening of the TL.

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Results of Operations

As a result of the Transaction, operations in Q3 2021 were limited to ongoing maintenance of the three well sites related to the Deep Gas Play, and general and administrative costs.

As at September 30, 2021, the Company recorded a gain on the deferred consideration related to the Transaction of $1.5 million as the maximum payment of $2.5 million is expected to be collected in 2022 due to the recent increases in Turkish natural gas prices.

With the exception of the aforementioned gain on the deferred consideration, the results for the three months ended September 30, 2021, reflect the expected ongoing operations of the Company, until operations related to new business and/or the Deep Gas Play commence.

General and Administrative Expenses

	Three months ended		**Nine months ended**	
	September 30, 2021	September 30, 2020	**September 30, 2021**	September 30, 2020
General and administrative expenses	**$ 1,092**	$ 1,468	**$ 3,870**	$ 4,737
Recoveries and capitalised general Administrative expenses	**(126)**	(254)	**(257)**	(1,382)
Total general and administrative expenses	**$ 966**	$ 1,214	**$ 3,613**	$ 3,355

General and administrative ("G&A") expenses for the quarter decreased when compared to the same period in 2020 due to reductions in staffing levels at the Company's head office, and a reduction in costs due to the Transaction which closed in Q2 2021.

It should be noted that the G&A for the nine months includes all G&A costs associated with the shallow production operations up to the close of the Transaction on May 26, 2021.

Operating Costs

Operating costs for the three and nine months ended September 2021 were $0.05 million and $1.2 million ($0.1 million related to the Deep Gas Play). This compares to $0.9 million and $2.6 million for the three and nine months ended September 30, 2020, which included the properties related to the Transaction for the full periods.

The Deep Gas Play costs in 2021 were related to the ongoing maintenance and insurance.

Foreign Exchange

Foreign exchange (realised and unrealised) for three and nine months ended September 30, 2021, was a gain of $1.1 million and of $0.7 million, respectively, compared to a loss of $0.3 million and a gain of $0.2 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.

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The Company's general and administrative costs are mostly denominated in Canadian dollars ("CAD"). The Canadian dollar depreciated against the USD in Q3 2021, with the average exchange against the USD decreasing by approximately 2%.

The TL continued to devalue against the USD, declining approximately 2% during Q3 2021. More significant declines have occurred in October 2021.

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. The deferred consideration is in the form of a cash royalty payable over 5 years, tied to local gas prices, with a minimum payment of $1 million and a maximum of $2.5 million.

As at September 30, 2021, the Company recorded a gain on the deferred consideration related to the Transaction of $1.5 million, as the maximum payment of $2.5 million is now expected to be collected in 2022 due to the recent increases in Turkish natural gas prices.

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 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.

	May 26, 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)**

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Results of Shallow Production Operations to May 26, 2021

	May 26, 2021
Petroleum and natural gas sales	$ 3,126
Royalties	(423)
Production costs	(1,153)
Operating netback[1]	1,550
Third party natural gas sales net of costs	152
Capital Expenditures	$ 163

The Company's 2021 petroleum and natural gas sales, royalties and third-party natural gas sales were all related to its 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 ($0.04 million).

Non-cash Expenses

Currency Translation Adjustment

The currency translation adjustment for the three and nine months ended September 30, 2021, was a loss of $1.0 million and $2.4 million, respectively, compared to a loss of $2.7 million and $8.8 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 in Q2 2021.

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 nine months ended September 30, 2021, was $0.1 million and $0.1 million, respectively, compared to $0.1 million and $0.5 million, respectively, for the same periods in 2020.

Change in Estimate and Accretion on Decommissioning Liabilities

In 2021, the Company recorded a recovery of $0.5 million related to the change in estimate on the Company's decommissioning obligations for the wells related to the Deep Gas Play. 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 (September 30, 2021 – 18.5%; December 31, 2020 – 12.5%) and an increase in the inflation rate in Turkey (September 30, 2021 – 19.6%; December 31, 2020 – 14.6%).

[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.

Liquidity, Financing and Capital Resources

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 $41.7 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 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 $0.14 million in letters of credit under the APSG facility at current exchange rates.

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Selected Quarterly Information

	Three months ended			
	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Total daily production (boe/d)	-	614	684	707
Average wellhead price ($/boe)	$ -	$ 30.24	$ 33.92	$ 30.43
Petroleum and natural gas sales	-	1,040	2,086	1,978
Cash provided by (used in) operating activities	(1,151)	(677)	(448)	(1,035)
Net income (loss)	1,234	(61,533)	(1,061)	(15,294)
Per share, basic and diluted	$ 0.01	$ (0.71)	$ (0.01)	$ (0.18)
	Three months ended			
	September 30, 2020	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**
Total daily production (boe/d)	615	561	716	646
Average wellhead price ($/boe)	$ 32.57	$ 37.57	$ 43.03	$ 44.60
Petroleum and natural gas sales	1,843	1,918	2,808	2,653
Cash provided by (used in) operating activities	(1,113)	1,192	811	2,286
Net loss	(2,149)	(1,899)	(192)	(735)
Per share, basic and diluted	$ (0.02)	$ (0.02)	$ (0.00)	$ (0.01)

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

- Net income in Q3 2021 was due to a $1.5 million gain on deferred consideration and a $0.7 million foreign exchange gain.
- 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 in Q2 2021 and no production and sales in Q3 2021; 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.

Outstanding Share Data

	September 30, 2021
Common shares	86,584,989
Stock options	6,681,000
Fully diluted	93,265,989

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 July 1, 2021, and ending on September 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 September 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 commitment to safety, environmentally responsible practices and optimising operational and administrative functions; and the Company's business strategy and outlook.

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 timing of royalty payments under the Sale Transaction; the ability to receive the maximum royalty payment of $2.5 million; 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 fulfil commitments 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 in Turkey; potential changes in joint venture partner strategies and participation in work programmes; 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.