valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 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 March 30, 2022 and should be read in conjunction with Valeura's audited consolidated financial statements and related notes for the years ended December 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, 2021 ("2021 AIF"). The reporting currency is the United States Dollar ("USD") (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board as at and for the years ended December 31, 2021 and 2020, and have been prepared in accordance with the accounting policies and methods of computation as set forth in note 3 of the consolidated financial statements.

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

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

Any financial outlook or future oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of Valeura. Such financial outlook or future oriented financial information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The ability to make reliable estimates is further complicated when the political, economic and security situation is uncertain. Management has based its estimates with respect to the Company's operations in Turkey on information available up to the date this MD&A which was approved by the board of directors of the Company. Significant changes could occur which could materially impact the assumptions and estimates made in this MD&A.

Non-GAAP Financial 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 and production expenses), is a non-GAAP financial 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 financial 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 transactions. In the first transaction, the Company acquired increased ownership and took operatorship of its gas producing business in the Thrace Basin. In the second set of transactions, Equinor farmed-in across several of the Valeura exploration licences and production leases 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 gas would flow post stimulation. Equinor exited the Deep Gas Play in Q2 2020, and the Company is currently conducting a search for a new partner to progress further appraisal of the Deep Gas Play.

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 "Disposition"). The Disposition 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 held all of Valeura's conventional shallow gas assets. Valeura retained all the assets related to the Deep Gas Play through its wholly owned subsidiary, Valeura Energy Netherlands B.V.

As at December 31, 2021, the Company held operatorship and deep rights on six exploration licences and production leases in the Thrace Basin comprising approximately 0.23 million gross acres and 0.19 million net acres, as shown in the table below. As a result of the COVID-19 situation in Turkey, local regulators have extended the term of the current phase of exploration licences and the associated timeline to fulfil licence commitments, including drilling obligations, by one year, and as a result, the West Thrace Exploration Licence and Banarli Exploration Licences now have an expiry date of June 27, 2023. The licenses are in the first of three possible two-year extensions (with this first period now extended to three years as noted above) providing a period of up to five additional years to explore and appraise the Deep Gas Play before the Company is required to convert the licences into 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	123,847	100%	123,847
West Thrace Exploration Licence	1	88,434	63%	55,713
Total	**6**	**225,859**		**188,114**

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 Disposition, which sold all of the Company's reserves and natural gas and crude oil production, closed on May 26, 2021. The Disposition 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 increased price of gas in the latter half of 2021, Valeura invoiced $0.8 million in royalty for the period from September to December 2021 and recognised the maximum value of the royalty as receivable. The royalty is more fully discussed under "*The Disposition*". As a result of the recent high gas prices the remaining $1.7 million of the royalty receivable is expected to be collected in Q1 2022.

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 to June 2027 at expected relatively low holding costs. The licences carry current work commitments which must be completed by June 2023 to enable application for the next two-year extension and associated work commitment. Given the current high gas prices in Europe and Turkey, the Company is continuing its search for a suitable farm-in partner for the tight gas appraisal play and is working with a London-based advisor to assist in the search. The Company believes securing a partner is the most prudent first step before committing significant capital to the next phase of appraisal drilling. Valeura is poised to resume deep drilling operations rapidly upon securing a partner, with several locations already in the advanced permitting stage.

New Business

Valeura intends to leverage its strong financial position toward growing by way of mergers and acquisitions ("M&A"). The collective international experience of the Company's management and board defines a broad focus area, including jurisdictions with significant deal flow and expected relatively low competition for assets. Valeura is actively pursuing several M&A opportunities, targeting near-term production and cash flow, plus follow-on investment opportunities to enable mid-term growth.

Business Environment

The Company's business was complicated in 2020 and much of 2021 by the effects of the global COVID-19 pandemic given the restrictions on travel and in person meetings. However, the situation has improved throughout Q4 2021 and early 2022 with recent relaxing of restrictions in many parts of the world.

The sharp rise in global oil prices and regional natural gas prices throughout 2021 and into 2022 from lows in 2020 is making it more challenging to close M&A transactions.

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 possible future sales of natural gas. However, the

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Company notes the long-standing approach by Turkish regulators to adjust the reference price for domestic sales of Turkish natural gas, reflecting regional natural gas price trends, which has more than offset 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 the ongoing weakening of the TL.

Results of Operations

As a result of the Disposition, operations in Q4 2021 were limited to ongoing maintenance of the three well sites related to the Deep Gas Play, and general and administrative costs.

As at December 31, 2021, the Company recorded a gain on the deferred consideration related to the Disposition of $1.5 million and the maximum payment of $2.5 million is expected to be collected in 2022 as a result of 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 December 31, 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		Years ended	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
General and administrative expenses	**$ 1,246**	$ 1,252	**$ 5,116**	$ 5,989
Recoveries and capitalised general and administrative expenses	**(66)**	(190)	**(323)**	(1,572)
Total general and administrative expenses	**$ 1,180**	$ 1,062	**$ 4,793**	$ 4,417

General and administrative ("G&A") expenses, before recoveries, in Q4 2021 remained consistent when compared to the same period in 2020. G&A expenses, before recoveries, for the year ended December 31, 2021 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 Disposition which closed in Q2 2021.

G&A for the year ended December 31, 2021 includes all G&A costs associated with the shallow production operations up to the close of the Disposition on May 26, 2021.

Operating Costs

Operating costs for Q4 2021 and the year ended December 31, 2021 were $0.07 million and $1.3 million ($0.1 million of which was related to the Deep Gas Play, respectively). This compares to $0.7 million and $3.3 million for the same periods in 2020, which included the properties related to the Disposition for the full periods.

The Deep Gas Play costs for the year ended December 31, 2021 were related to ongoing maintenance and insurance.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q4 2021 and the year ended December 31, 2021, was a loss of $0.2 million and a gain of $0.4 million, respectively, compared to a loss of $1.1 million and $0.9 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.

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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 affect 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 2021, with the average exchange against the USD increasing by approximately 1%. The TL continued to devalue against the USD, declining approximately 77% in 2021.

The Disposition

On May 26, 2021, the Company closed the Disposition for cash consideration (including closing working capital and effective date adjustments) of $16.85 million, and deferred cash consideration initially valued at $1.0 million at close, 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 five years, tied to local Turkish natural gas prices, with a minimum payment of $1 million and a maximum of $2.5 million.

As at December 31, 2021, the Company recorded a gain on the deferred consideration related to the Disposition of $1.5 million. The maximum payment of $2.5 million is now expected to be collected in 2022 as a result of 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 were the TL and Valeura's reporting currency is USD. The $67.0 million currency translation loss associated with the Disposition, which was reclassified from AOCI to current period net loss, represents accumulated translation adjustments to reported USD balances from the inception of investment in the disposed assets in 2011 to the Disposition closing in May 2021. During this period the TL 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 petroleum and natural gas sales, royalties and third-party natural gas sales for the year ended December 31, 2021 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 Q4 2021 and year ended December 31, 2021, was a loss of $1.3 million and $2.3 million, respectively, compared to a gain of $2.8 million and a loss of $6.0 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 Disposition in Q2 2021 and an additional $0.8 million related to the liquidation of a foreign subsidiary in Q4 2021.

Share-based Compensation

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

Share-based compensation expense for Q4 2021 and the year ended December 31, 2021, was $0.1 million and $0.2 million, respectively, compared to $0.5 million and $1.0 million, respectively, for the same periods in 2020.

Change in Estimate and Accretion on Decommissioning Liabilities

In 2021, the Company recorded an expense of $0.1 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 three deep wells and associated 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 reflects the combined effect of a revision in the cost estimates for abandonment and reclamation, and changes in the risk-free interest rate in Turkey (December 31, 2021 – 23.1%; December 31, 2020 – 12.5%) and an increase in the inflation rate in Turkey (December 31, 2021 – 36.1%; December 31, 2020 – 14.6%).

In 2021, the Company also recorded an accretion on decommissioning liabilities expense of $0.6 million.

[1] Non-GAAP financial 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 financial 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 $40.8 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 (“EDC”) 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			
	December 31, 2021	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Total daily production (boe/d)	-	-	614	684
Petroleum and natural gas sales	-	-	1,040	2,086
Cash provided by (used in) operating activities	(887)	(1,151)	(677)	(448)
Net income (loss)	(3,190)	1,234	(61,533)	(1,061)
Per share, basic and diluted	$ (0.04)	$ 0.01	$ (0.71)	$ (0.01)
	Three months ended			
	December 31, 2020	**September 30, 2020**	**June 30, 2020**	**March 31, 2020**
Total daily production (boe/d)	707	615	561	716
Petroleum and natural gas sales	1,978	1,843	1,918	2,808
Cash provided by (used in) operating activities	(1,035)	(1,113)	1,192	811
Net loss	(15,294)	(2,149)	(1,899)	(192)
Per share, basic and diluted	$ (0.18)	$ (0.02)	$ (0.02)	$ (0.00)

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

- The Company completed the Disposition 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

	December 31, 2021
Common shares	86,584,989
Stock options	6,667,666
Fully diluted	93,252,655

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Selected Annual Information

			Years Ended
	December 31, 2021	December 31, 2020	December 31, 2019
Petroleum and natural gas sales	$ 3,126	$ 8,547	$ 10,177
Cash provided by (used in) operations	(3,163)	(145)	1,572
Net loss	(64,550)	(19,534)	(4,815)
Per share, basic and diluted ($/share)	(0.75)	(0.23)	(0.06)
Cash and cash equivalents	40,826	30,143	36,111
Total assets	45,223	54,857	81,663
Total long-term liabilities	1,752	2,161	9,952

The increase in Valeura's net loss in 2021 was due to a $67 million currency translation loss transferred to earnings from AOCI upon close of the Disposition in Q2 2021. This was partially offset by the $6.1 million gain on disposition related to the Disposition. Total assets have decreased as a result of the Disposition and the devaluation of the TL against the USD. The increase in cash was the result of the proceeds from the Disposition.

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 audited consolidated financial statements for the year ended December 31, 2021 for a description of estimates and judgments.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") for Valeura. DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarised and reported within the time periods specified under Canadian securities law and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The CEO and CFO of Valeura evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that Valeura's DC&P were effective as at December 31, 2021.

Internal control over financial reporting ("ICFR"), as defined in NI 52-109, includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made in accordance with authorisations of management and directors of the Company; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

The CEO and CFO are responsible for establishing and maintaining ICFR for Valeura. They have, as at the financial year ended December 31, 2021, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, Valeura conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2021 and concluded that as of December 31, 2021, ICFR was effective. The Company uses the Committee of Sponsoring Organizations of the Treadway Commission – Integrated Framework ("2013 Framework"). and designed its internal controls over financial reporting based on the 2013 Framework. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at December 31, 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

The reader is referred to the 2021 AIF for a more complete description of business risks and uncertainties.

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

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

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

Acquisitions, dilution and availability of debt

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

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

Capital requirements

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

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

Management of growth

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

Exploration, development and production risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Valeura will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Valeura may have at any particular time and the production therefrom will naturally decline over time as such existing reserves are produced and depleted. A future increase in Valeura's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. No assurance can be given that Valeura will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Valeura may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Valeura.

While diligent well supervision and effective maintenance operations can contribute to maximising production rates over time, natural declines as reserves are depleted and production or sales delays cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, Valeura will not be fully insured against all of these risks, nor are all such risks insurable. Although Valeura will maintain liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Valeura could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations.

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

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

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

The loss of one or more of its key personnel could have an adverse impact on the business of the Company. Furthermore, it may be particularly difficult for the Company to attract and retain suitably qualified and experienced people, given the competition from other industry participants and the relative size of the Company.

In addition, the success of the Company's merger and acquisition strategy relies in part on the expertise of the directors and senior management in assessing new business and new country entry, which is specialised knowledge. The business relationships of directors and management can be helpful.

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

Management of key relationships in Turkey

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

Variations in foreign exchange rates and interest rates, and hedging

The Company's drilling and completion operations in Turkey and related contracts are based in U.S. Dollars. Material increases in the value of the U.S. Dollar will negatively impact the Company's costs of drilling and completions activity. The Company's functional currency in its subsidiary operations in Turkey is TL. Any future revenue stream in Turkey is expected to be based on TL revenue for natural gas and U.S. Dollar based revenue for crude oil translated into TL. The majority of costs will be incurred in U.S. Dollars for capital expenditures and TL for operating expenditures. Decreases in the value of the TL could result in decreases in revenue. Increases in the value of the TL and U.S. Dollar could result in increases in the cost of operations. To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. Valeura continues to assess its exposure to all foreign currencies. Recent volatility and weakness in the value of the TL may impair the ability of the Company to manage this exposure.

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

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

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of regulations in Turkey. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. In addition, many areas of the Thrace Basin are designated as prime agricultural land requiring land use approvals from both Agricultural and Energy and Natural Resources Ministries in Turkey. Currently, there are no restrictions on the hydraulic stimulation of wells in Turkey. However, a number of jurisdictions in Europe have temporarily or permanently banned hydraulic fracturing, a form of high-pressure stimulation, of wells and there is a risk that these restrictions may spread to other jurisdictions in the region, including Turkey. High pressure stimulation of tight gas formations is critical to achieving commercial production. Any future restrictions could have a material adverse effect on Valeura's business. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Valeura to incur costs to remedy such discharge. Although Valeura believes it is in material compliance with current applicable environmental and land use regulations, no assurance can be given that environmental laws or agricultural land use requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Valeura’s financial condition, results of operations or prospects.

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

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

The cost and complexity of complying with the applicable environmental laws and regulations may prevent the Company from being able to develop potentially economically viable oil and gas operations.

Although the Company believes that it is in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spillages, leakages or other unforeseen circumstances, which could subject the Company to extensive costs and liability.

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

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

Climate change legislation

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

Climate change policy is emerging and quickly evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Implementation of strategies by any level of government within Turkey or countries the Company may operate in in the future, and whether to meet international agreed limits, or as otherwise determined, for reducing greenhouse gases could have a material impact on the operations and financial condition of the Company. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company, its operations, its financial condition and its ability to raise capital and its cost of capital. It is also not possible at this time to predict whether any proposed legislation relating to climate change will be adopted, and whether any such regulations could result in operating restrictions or compliance costs.

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

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 Disposition; expectations regarding the Company receiving 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; evolving impacts of the COVID-19 pandemic including disruptions in global supply chains; the Company's ability to manage growth; 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; the ability of the Company to maintain its directors, senior management team and employees with relevant experience; the ability of the Company to maintain effective ICFR; 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 2021 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.