valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019 and 2018

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

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of May 8, 2019 and should be read in conjunction with Valeura's unaudited condensed interim consolidated financial statements and related notes for the three month period ended March 31, 2019 and 2018. 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, 2018 ("2018 AIF"). The reporting currency is the Canadian Dollar (see the sections titled "Foreign Exchange" and "Currency Translation Adjustment" for discussion on Valeura's functional currencies).

Basis of Presentation

These 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 have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's 2018 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 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, 2018.

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.

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 unlikely to 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 Canadian Dollars, except share, per share or per unit amounts)

Highlights and Selected Financial Information

	Three months ended	
	March 31, 2019	March 31, 2018
Financial		
Petroleum and natural gas sales	**$ 3,880**	$ 3,469
Net loss	**(3,070)**	(2,435)
Per share, basic and diluted	**(0.04)**	(0.03)
Adjusted funds flow[1]	**454**	545
Per share, basic and diluted	**0.01**	0.01
Cash provided by (used in) operating activities	**$ (401)**	$ (3,935)
Production volumes		
Natural gas (Mcf/d)	**4,488**	5,066
Crude oil (bbl/d)	**20**	15
Total (boe/d)	**768**	859
Sales prices		
Natural gas (per Mcf)	**$ 9.20**	$ 7.37
Crude oil (per bbl)	**92.48**	82.61
Total (per boe)	**56.17**	44.87
Exploration and development capital	**5,682**	874
Banarli Farm-in	**(1,930)**	-
Working capital[2]	**56,060**	58,524
Cash	**$ 63,847**	$ 56,899
Weighted average shares outstanding		
Basic and diluted (thousands) [3]	**86,491**	76,657

Outstanding Share Data

	March 31, 2019
Common shares	86,584,989
Stock options	5,821,666
Fully diluted	92,406,655

1 Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation to operating cash flow on page 12.

2 Working capital is current assets less current liabilities.

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

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

The Company

Valeura is a Canada-based public company currently engaged in the exploration, development and production of oil and natural gas in the Thrace Basin of northwest Turkey. Valeura's shares are traded on the Toronto Stock Exchange ("TSX") under the trading symbol "VLE". On April 25, 2019, Valeura's shares also commenced trading on the London Stock Exchange ("LSE"), under the trading symbol "VLU".

Valeura was established in 2010 to grow internationally through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in regions of interest, which included the Mediterranean Basin. The Company completed its first international transaction in Turkey during 2010 and since that time has executed a number of other transactions and won several new exploration licence awards in the country.

The asset and financing deals completed by the Company between Q4 2016 and Q1 2018 have transformed the Company by increasing the size of the asset base, giving Valeura operatorship of all key assets, and providing the financial capacity to explore and appraise the unconventional basin-centered gas accumulation ("BCGA") play. Additionally, the Company has secured Equinor Turkey B.V. ("Equinor") as a large, well-respected partner which provides further technical and financial capacity to explore and appraise the deep, unconventional potential of the lands.

As at March 31, 2019, the Company held an interest in 20 exploration licences and production leases in the Thrace Basin of Turkey comprising approximately 0.46 million gross acres (0.37 million net acres of shallow rights and 0.26 million net acres of deep rights) as follows:

		Leases & Licenses	Gross Area (Acres)	Valeura Shallow Rights		Valeura Deep Rights	
				WI	Net Acres	WI	Net Acres
South Thrace Production Leases	Operated	11	170,735	81.5%	139,149	81.5%	139,149
West Thrace Production Leases	Operated	3	13,578	81.5%	11,066	31.5%	4,277
Erdine Production Leases	Non-Operated	3	49,883	35.0%	17,459	35.0%	17,459
Banarli Exploration Licenses(1)	Operated	2	133,840	100.0%	133,840	50.0%	66,920
West Thrace Exploration Licenses	Operated	1	88,434	81.50%	72,074	31.5%	27,857
Total			**456,470**		**373,588**		**255,662**

(1) To earn their 50% deep rights under the Banarli Farm-In Agreement, Equinor must still fund the fracking and testing of the Inanli-1 well. If this work program is not completed, Valeura reverts to 100% ownership.

The Company's primary producing assets are located in the South Thrace Lands and the West Thrace Lands, in each case, being the lands comprising the leases and licences described above (together the "TBNG JV Lands").

In the South Thrace Lands, the Company holds 11 production leases encompassing 170,735 gross acres. Valeura is the operator of the South Thrace Lands and holds an 81.5% working interest in the shallow rights and deep rights. The South Thrace Lands are jointly held by Valeura's wholly-owned subsidiaries, Thrace Basin Natural Gas Inc. ("**TBNG**") (41.5%) and Corporate Resources BV ("**CRBV**") (40%), and Pinnacle Turkey, Inc. ("**PTI**") holds the other 18.5% working interest. There is no work programme obligation to the government.

In the West Thrace Lands, the Company holds three production leases and one exploration licence encompassing 102,012 gross acres. The Company's 31.5% working interest in deep rights is held by TBNG, and the Company's 81.5% working interest in shallow rights is jointly held by TBNG (as to 41.5%) and CRBV (as to 40%). Equinor (as to 50%) and PTI (as to 18.5%) hold the remaining working interests in the deep rights, and PTI holds the remaining 18.5% working interest in the shallow rights. Valeura is the operator of the West Thrace Lands which are subject to joint operating agreements. The West Thrace Exploration Licence has a two well commitment to fulfill the work programme obligation which must be completed by June 26, 2020.

The Company holds two exploration licences in the Banarli Lands, being the lands comprising the licences described above, encompassing 133,840 gross acres. The Company holds a 100% working interest in the shallow rights and 50% working interest in the deep rights through CRBV. Equinor holds the other 50% working interest in the deep rights. Rights are subject to joint operating agreements and the Banarli Farm-in and Valeura is currently the operator. The seismic and drilling work programme obligation to the government has been completed, except for geological and geophysical studies.

Equinor has a 50% working interest in the deep rights under the Banarli Farm-in which requires Equinor to fully fund: (1) the drilling and testing of the Yamalik-1 well; (2) the acquisition and processing of the Karaca 3D seismic programme; and (3) the drilling and testing of Inanli-1 well. It is expected that Equinor will fulfill these obligations in 2019 once the testing of Inanli-1 is complete. If this work is not fully completed, 100% ownership of deep rights reverts to Valeura.

The boundary between the deep and shallow rights is determined by either a pressure gradient of 0.6 psi/ft (1.39 SG) or 2,500 metres depth, whichever is shallower. Valeura remains operator of the deep exploration programme on both the Banarli Exploration Licences and West Thrace Lands during Equinor's earning phase in Banarli. Equinor will have the option to request operatorship of the deep rights on both the Banarli and West Thrace Lands once they have fully earned. Additionally, under the Banarli Farm-in agreement Equinor has no pre-emptive right related to Valeura's interests and there are some controls for Valeura's benefit related to managing the pace of appraisal drilling allowed prior to approval of a pilot project for development.

The Company's wholly-owned subsidiary, Valeura Energy Netherlands BV ("**VENBV**") holds a 35% working interest in three production leases in Edirne encompassing 49,883 gross acres. Otto Energy Limited (a subsidiary of TransAtlantic Petroleum) operates and holds the remaining 65% working interest. These leases currently do not have active operations or production and were fully impaired in 2016.

The Company is focussed on growing its established business in Turkey, particularly its natural gas operations in the Thrace Basin which yields very high natural gas prices relative to North America. As a result of the success of the Yamalik-1 gas-condensate discovery, the primary focus of Valeura's business has transitioned to the delineation and commercial demonstration of the multi-TCF BCGA play. However, the Company still continues to optimise its established conventional shallow gas assets in the Thrace Basin.

Operations

Production Operations

The Company generates cash flow from the sale of petroleum and natural gas production from its assets in the Thrace Basin of Turkey. The gas, which is composed primarily of methane, is gathered, dehydrated and compressed in Company-operated facilities and distributed on a Company-operated sales line network directly to 55 light industry customers. Valeura is the operator of all of its production operations.

The Company is continuing with its plan of selective low-cost workovers throughout the conventional play, to slow the natural decline from the existing fields.

BCGA Play

Valeura identified the potential for an unconventional Basin Centred Gas Accumulation ("BCGA") play very early in its entry into the Thrace Basin. Based on the BCGA thesis, the Company acquired the Banarli Exploration Licences in 2013 and in the 2012 to 2015 period drilled the Kazanci-5, Hayrabolu-10 and Yayli-1 wells into deeper, over-pressured formations which provided more evidence supporting the BCGA play concept.

After the Banarli Farm-in to the deep rights, the Company completed approximately 500 square kilometres of 3D seismic (Karaca) and drilled the Yamalik-1 exploration well in 2017. The Yamalik-1 well was drilled as the first well testing the BCGA thesis under the Banarli Farm-in. The well encountered highly over-pressured gas saturated Teslimkoy and Kesan Formations from approximately 2,900 metres down to the total depth of 4,196 metres. The overpressure at the total depth was greater than 0.8 psi/ft based on testing results. The average net sand in the objective section was approximately 44% of the gross section.

In the fourth quarter of 2017, Valeura completed four production tests in the Kesan formation in Yamalik-1 where each test was preceded by two slick-water high-pressure stimulations. The testing successfully demonstrated that gas and condensate would flow to surface post- high-pressure stimulation and a 24-hour aggregate production test rate of 2.9 million cubic fee per day ("MMcf/d") was achieved. The gas flowed with a significant amount of condensate (with a test data range of 20 to 70 barrels per MMcf). The ability to flow high-pressure gas from an area outside of a structural closure supported the interpretation of an unconventional BCGA play in the area of the well.

Activities in 2018 focused on the planning and commencement of an appraisal programme for the BCGA play to determine whether the over-pressured gas is pervasive across the basin and to demonstrate that the gas could be flowed commercially. The notional programme agreed with Equinor was to drill three new appraisal wells, which would be high-pressure stimulated and tested if successful, and to further production test one or two historic wells. In September 2018, Valeura recompleted the Yamalik-1 well following the tie-in of the well to the gathering system to allow for a production testing on a comingled basis. The Company performed production logging testing in Q1 2019 and plans to continue that programme, including a possible workover on the well.

The first appraisal well, Inanli-1, was spudded in October 2018. The well was approximately 6 km from Yamalik-1 on the Banarli lands and the key objectives were to prove whether the over-pressured, gas-bearing reservoir discovered in the Yamalik-1 exploration well is laterally continuous and is indicative of a BCGA, to test for effective reservoir and over-pressured gas at deeper depths than Yamalik-1, and to test for the presence of enhanced natural fracturing in the reservoir. Drilling operations carried into January 2019 when the well reached a total depth at 4,885 metres. Based on drilling and wireline logging data, the well is interpreted to have intersected over-pressured tight gas below 3,270 metres down to the total depth. A programme to high-pressure stimulate the well and test select intervals is currently being finalised and is expected to commence in Q2 2019.

The second appraisal well Devepinar-1 on the West Thrace Lands is located 20 km west of Yamalik-1 and Inanli-1 and was spudded in late February 2019 and drilled safely and efficiently to 4,796 metres, with clear indications of over-pressured gas throughout the 1,066 metre gross column in the Teslimkoy and Kesan Formations. High grading of potential intervals of interest is now underway, in advance of developing a reservoir stimulation programme, jointly with the Company's partners. The well was operated by Valeura, with costs shared proportionately based on the working interest share of each partner (Valeura 31.5%). The well has been cased and left in a state ready for testing and completion.

Valeura and its partners decided in April 2019 to focus on the completion and production testing of Yamalik-1, Inanli-1 and Devepinar-1 prior to proceeding with any new drilling. These data will be used to select optimal locations for future drilling activity including a potential third appraisal well.

London Stock Exchange Listing

On April 25, 2019 the Company's 86,584,989 common shares ("**the Common Shares**") were admitted to the Standard Segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange's Main Market under the ticker "VLU". Valeura maintains its Toronto Stock Exchange listing in addition to this new listing on the London Stock Exchange. The Common Shares are now fully fungible between the two exchanges and can be readily transferred. The goal of this listing is to provide additional liquidity to support the stock price and to attract UK-based institutional shareholders.

Political and Regulatory Environment

Turkey has gone through a period of political change and uncertainty since 2016 to 2018. However, with the successful passing of the referendum on constitutional change, and the successful election in mid-2018, the incumbent, President Erdogan remains in office.

Recent geopolitical events have resulted in a continued downward slide in the value of the Turkish Lira ("TL"), and at times these drops have been very sharp. This has also had the effect of sharply increasing inflation to more than 20% in 2018 and continuing at that level for the first quarter of 2019, after well over a decade of strong growth and relatively stable inflation. The resulting negative sentiment to Turkey has at times resulted in a decrease in the value of the Common Shares.

To date, the above events have not impacted the Company's ability to conduct operated and non-operated drilling and production operations in the Thrace Basin and no significant delays or security issues have been experienced in these operations. All of the Company's current operations are in the Thrace Basin of northwest Turkey, more than 1,000 kilometres from the Syrian border, where security concerns are heightened.

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

Outlook

The Company has built a strong understanding of the geology of its BCGA play and has demonstrated the presence of high-pressure gas across the basin down to circa 5,000 metres. There are now 11 wells around the basin that have all intersected high-pressure gas at depth, with the most recent being Yamalik-1, Inanli-1, and Devepinar-1, drilled by Valeura and its partners. The drilling results from Inanli-1 and Devepinar-1 this year have increased the Company's confidence in its ability to predict reservoir, gas, and stratigraphic intervals that may be more naturally fractured. At the same time, uncertainty related to the amount of in-place gas volumes across Valeura's lands has been reduced. The next, and critical, step will be stimulation and production testing many of the different zones that have been intersected to demonstrate that the gas will flow at sustainable, commercial rates.

In Q2 2019, the Company will commence a zone by zone stimulation and production testing programme across the two new wells. Inanli-1 intersected a gross gas column of 1,615 metres and the Company has just completed two separate Diagnostic Fracture Integrity Tests ("DFITs") that have indicated the gas is at very high pressure at depth. Devepinar-1 encountered a 1,066 metre gross gas column and is interpreted to have better porosity than previous wells. There are significant variations in the reservoir and gas properties encountered, owing to the very long vertical sections penetrated and the substantial separation between the two wells, of approximately 20 kilometres. Therefore, individual zone by zone testing is critical to understand how each interval will behave under flow conditions. Additionally, the Company has reviewed the production logging test (the "PLT") data from the Yamalik-1 well with Equinor and is now developing a plan to re-enter the well, with a view to isolating a portion of the column to conduct further selective zonal flow testing. These operations are expected to commence within the next month and will continue through Q2 and Q3 2019.

The objective of testing these wells is to attain sustainable gas production rates and to ascertain the properties of the gas and condensate from each of the target zones. The Company intends to stimulate and test a minimum of eight separate intervals in the new wells, but this could increase to 12 with success. For such testing in the vertical wells, initial production rates are less critical, as the Company believes that future initial production rates and ultimate recoveries per well will be greatly increased with horizontal drilling and multi-stage stimulation. Demonstrating sustained flow from a single zone will greatly increase the chance of a commercial development of the Company's BCGA resource, which has been evaluated by DeGolyer and MacNaughton, effective December 31, 2018, at 10.1 Trillion Cubic Feet equivalent ("Tcfe") estimated working interest unrisked mean prospective resources of natural gas, which includes 236 MMbbl of condensate.

Valeura remains very well positioned to finance its ongoing BCGA appraisal and all corporate activities through to 2020. The Company's working capital position is more than adequate to fund its working interest share of the stimulation and testing programme, and the Company expects to exit the year with approximately $40 million of positive working capital. In all its activities, the Company remains committed to continuing its safe and environmentally responsible operations and ensuring that operational and administrative functions are conducted in the most cost-efficient way.

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

Results of Operations

	Three months ended	
	March 31, 2019	March 31, 2018
Petroleum and natural gas sales	**$ 3,880**	$ 3,469
Royalties	**(516)**	(460)
Production costs	**(1,041)**	(1,049)
Operating netback[4]	**2,323**	1,960
Other income	**826**	365
General and administrative expenses	**(1,408)**	(1,335)
Transaction costs	**(1,072)**	(287)
Interest expense	**(9)**	-
Realised foreign exchange loss	**(62)**	(75)
Current tax expense	**(144)**	(83)
Adjusted funds flow [5]	**454**	545
Non-cash expenses		
Share-based compensation	**(715)**	(176)
Accretion on decommissioning liabilities	**(504)**	(521)
Unrealised foreign exchange loss	**(402)**	(140)
Depletion and depreciation	**(1,857)**	(2,023)
Deferred tax expense	**(46)**	(120)
Net loss	**$ (3,070)**	$ (2,435)

Sales Volumes

	Three months ended	
	March 31, 2019	March 31, 2018
Natural gas (Mcf/d)	**4,488**	5,066
Crude oil (bbl/d)	**20**	15
Total (boe/d)	**768**	859

Sales volumes increased 23% in Q1 2019 to 768 barrels of oil equivalent per day ("boe/d") relative to the previous quarter but decreased from 859 boe/d in comparison to the same period in 2018. This reduction was due to natural declines partially offset by successful workovers.

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

[5] Non-GAAP measure that does not have any standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other entities – see note regarding non-GAAP measures on page 1 and reconciliation on page 12.

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

Pricing Information

	Three months ended			
Average reference prices	**March 31, 2019**		March 31, 2018	
Natural gas – BOTAS (per Mcf)[6]	**TL**	**38.08**	TL	22.54
Natural gas – BOTAS (per Mcf)	**$**	**9.45**	$	7.49
Average exchange rate (TL/CAD)		**4.03**		3.01

	Three months ended			
Average realised prices	**March 31, 2019**		March 31, 2018	
Natural gas (per Mcf)	**$**	**9.20**	$	7.37
Crude oil (per bbl)		**92.48**		82.61

Natural gas sales from the TBNG JV Lands are under direct sales contracts to industrial buyers and power generation companies in the area and each contract is at a negotiated discount or premium to the BOTAS Reference Price, described below. Natural gas from Banarli is being sold to the TBNG JV, net of a transportation and marketing fee. Valeura receives the majority of the benefits from this fee arrangement and the associated proceeds by virtue of its current 81.5% working interest in the TBNG JV facilities.

In Turkey the price of natural gas is set by BOTAS, the state-owned enterprise that owns most of the gas pipelines and controls most of the import contracts for natural gas into Turkey. The BOTAS Reference Price is denominated in TL. Historically, the BOTAS Reference Price has behaved in a similar manner to the regional price for natural gas when translated to US dollars ("USD"), though price changes have tended to lag the more market-driven natural gas prices in the region. In 2018, BOTAS introduced regular updates to the natural gas price and since mid-2018 the price has been adjusted, if required, on the first day of the month. In 2018 the price was adjusted upwards 5 times. Analysis suggests that these price adjustments are taking into account variations in the regional price of natural gas, and changes in the TL exchange rate. While indications are that the BOTAS pricing continues to move toward a more market-driven price for natural gas, there is no guarantee that the government will continue this policy in the future.

The Company's Q1 2019 average realised natural gas price in Turkey increased to $9.20 per Mcf from $7.37 per Mcf in Q1 2018 due to the price increases in 2018 partially offset by the devaluation of the TL against the Canadian dollar ("CAD").

In Q1 2019, the average realised natural gas price in Turkey of $9.20 per Mcf represents a 2.5% discount to the BOTAS benchmark price. The Company has reduced the discount on its natural gas sales contracts from prior year levels of 3% to 5% since taking control of the gas marketing activities for the Thrace Basin lands.

Petroleum and Natural Gas Sales Revenues

	Three months ended			
	March 31, 2019		March 31, 2018	
Natural gas	**$**	**3,717**	$	3,360
Crude oil		**163**		109
Total revenues	**$**	**3,880**	$	3,469

[6] BOTAS owns and operates the national crude oil and natural gas pipeline grids in Turkey and purchases the majority of Turkey's natural gas imports. BOTAS regularly posts prices and its Level-2 Wholesale Tariff benchmark is shown herein as a reference price. See the 2018 AIF for further discussion.

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

The composition of petroleum and natural gas sales revenues for Q1 2019 was approximately 96% natural gas and 4% crude oil. Revenues in Q1 2019 decreased in comparison to Q1 2018 due primarily to lower production volumes, offset partially by higher prices.

Royalties

	Three months ended	
	March 31, 2019	March 31, 2018
Royalties	**$ 516**	$ 460
Percentage of revenue	**13.3%**	13.3%

Royalties in Q1 2019 decreased in comparison to the same periods in 2018 as a result of lower petroleum and natural gas sales revenues. Revenues are subject to a 12.5% government royalty and an overriding royalty only on the TBNG JV lands of 1%.

Production Costs

	Three months ended	
	March 31, 2019	March 31, 2018
Production costs	**$ 1,041**	$ 1,049
$ per boe	**15.06**	13.57

Production costs in Q1 2019 are comparable to Q1 2018. The higher unit production costs in Q1 2019 in comparison to the same period in 2018 are reflective of the level of fixed costs included in total operating costs and lower gross production from the TBNG JV and Banarli Exploration Licences.

Operating Netbacks (per boe)

	Three months ended	
	March 31, 2019	March 31, 2018
Petroleum and natural gas sales	**$ 56.17**	$ 44.87
Royalties	**(7.47)**	(5.96)
Production costs	**(15.06)**	(13.57)
Operating netback[7]	**$ 33.64**	$ 25.34

Operating netbacks for Q1 2019 increased in comparison to the same period in 2018 due primarily to higher realised prices partially offset by higher per unit production costs.

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

General and Administrative Expenses

	Three months ended	
	March 31, 2019	March 31, 2018
General and administrative expenses	**$ 2,598**	$ 2,312
Recoveries and capitalised general administrative expenses	**(1,190)**	(977)
Net general and administrative expenses	**1,408**	1,335

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

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Net general and administrative expenses in Q1 2019 increased in comparison to the same period in 2018 as a result of increased personnel related to the expansion of the business and operations. Overhead recoveries are realised primarily from operating the deep drilling and testing programme on the BCGA.

Transaction Costs

During Q1 2019 the Company recorded transaction costs of $1.1 million compared to $0.3 million for the same period in 2018. The Q1 2019 transaction costs are fees related to the Company's listing on the London Stock Exchange and a final success fee payment for the Banarli Farm-in.

Foreign Exchange

Foreign exchange (realised and unrealised) for Q1 2019 was a loss of $0.5 million compared to a gain of $0.2 million for the same period in 2018.

The functional currency for the Company's Turkish operations is the TL. Foreign exchange gains and losses are the result of translation of accounts denominated in currencies other than the functional currencies of Valeura and its subsidiaries, and settling transactions denominated in currencies other than the functional currency of the entity.

The Company's petroleum and natural gas sales are conducted in Turkey and are denominated in TL. As such, the Company is exposed to any fluctuations in the TL to CAD and USD exchange rates. A decrease in the value of the TL against the CAD or USD will result in a decrease in revenues, royalty expense and operating costs. Correspondingly, an increase in the value of the TL against the CAD and USD will result in an increase in revenues, royalty expense and operating costs. Changes in the value of the TL against the CAD and USD could also impact reserve values.

Volatility in the value of the TL may impair the ability of the Company to effectively manage foreign exchange exposure. Continued devaluation of the TL, without a corresponding increase in the natural gas reference price, will have a negative impact on adjusted funds flow and could affect the ability of the Company to fund its capital programme in the future. Historically, any devaluation in the TL has been followed by a legislated increase in the posted BOTAS Reference Price for natural gas.

Changes to the TL/CAD exchange rate would have had the following impact on revenues, royalties and production costs for the three months ended March 31, 2019:

+/- 1% change in realised TL/CAD exchange rate	Petroleum and natural gas revenues	Royalties	Production costs
Three months ended March 31, 2019	$ 42	$ 5	$ 10

The Company's drilling and seismic operations and related contracts in Turkey are predominantly based in USD. Material changes in the value of the USD against the TL or CAD will impact the Company's capital costs.

Changes to the TL/USD exchange rate, which are impacted by the TL/CAD exchange rate upon conversion to the Company's CAD presentation currency, would have had the following impact on capital expenditures for the three months ended March 31, 2019:

+/- 1% change in realised TL/USD exchange rate, upon conversion to presentation currency	Capital expenditures
Three months ended March 31, 2019	$ 43

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

Other Income

During Q1 2019, the Company recorded other income of $0.8 million compared to $0.4 million for the same period in 2018. Other income is comprised of third party processing and marketing income and interest income related to cash on hand. The majority of the increase can be attributed to interest income as a result of higher average cash levels in 2019 in comparison to 2018. During Q1 2019, the Company recorded third party processing and marketing income of $0.3 million and interest income of $0.5 million.

Current Tax

Current tax for Q1 2019 was an expense of $0.1 million compared to an expense of $0.1 million for the same period in 2018. The current tax expense represents taxes due related to normal operating activities in Turkey.

Adjusted Funds Flow

Adjusted funds flow for Q1 2019 was an inflow of $0.45 million compared to $0.55 million for the same period in 2018. The decrease in adjusted funds flow in Q1 2019 was due to lower volumes and higher transaction costs partially offset by higher other income and realised prices.

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

	Three months ended	
	March 31, 2019	March 31, 2018
Cash provided by (used in) operating activities	**$ (401)**	$ (3,935)
Decommissioning costs incurred	**11**	25
Change in non-cash working capital	**844**	4,455
Adjusted funds flow [8]	**$ 454**	$ 545

Adjusted funds flow is a non-GAAP measure and is based on cash provided by 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 continuing operations.

Non-cash Expenses:

Share-based Compensation

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

Share-based compensation expense for Q1 2019 was $0.7 million compared to $0.1 million for the same period in 2018. The Company granted 1,575,000 options with a weighted average exercise price of $3.07 in Q1 2019.

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

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

Accretion on Decommissioning Liabilities

Accretion on decommissioning liabilities for Q1 2019 was $0.5 million compared to $0.5 million for the same period in 2018. High levels of inflation and interest rates continued in Turkey for the first quarter of 2019.

Depletion and Depreciation

Depletion and depreciation for Q1 2019 was $1.9 million compared to $2.0 million for the same period in 2018. Depletion is calculated on a unit-of-production basis utilising proved plus probable reserves.

On a per unit basis, depletion and depreciation for Q1 2019 was $30.43/boe compared to $26.17/boe for the same period in 2018.

Deferred Tax

Deferred tax for Q1 2019 was an expense of $0.05 million compared to an expense of $0.1 million for the same period in 2018. Deferred tax relates to changes in the temporary difference between the net book value and the tax basis of the assets and liabilities in the Company's Turkish operations.

Currency Translation Adjustments

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

The currency translation adjustment for Q1 2019 was a loss of $2.4 million compared to a loss of $0.8 million for the same period in 2018 reflecting the fluctuation in the value of the TL compared to the CAD in the respective periods.

Capital Expenditures

The following summarises the Company's capital spending:

	Three months ended	
	March 31, 2019	March 31, 2018
Geological and geophysical	**$ 63**	$ 128
Drilling & completions	**4,615**	259
Workovers & recompletions	**873**	386
Equipping, facilities & other	**131**	101
Total exploration and development capital programme	**5,682**	874
Banarli Farm-in	**(1,930)**	-
Total net capital [9]	**$ 3,752**	$ 874

Net capital is a non-GAAP measure and is equal to cash flow used in investing activities, excluding changes in non-cash working capital and restricted cash. The Company considers net capital expenditures to be a useful measure of cash flow used for capital reinvestment

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

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

The Company's total exploration and development capital programme spending for Q1 2019 was $5.7 million, including $4.6 million for drilling and completions operations and $0.9 million for workovers and recompletions. While Equinor funded the drilling of Inanli-1 under the Banarli Farm-in agreement, Valeura is required to pay its working interest of 31.5% towards the drilling of Devepinar-1 which spudded on February 19, 2019 and concluded drilling operations at the end of April 2019.

Phase 2 of the Banarli Farm-in was a commitment to complete a 3D seismic programme with a minimum cost of USD$10 million. The final cost total for the Karaca 3D seismic programme, agreed by partners in Q1 2019 totaled USD$8.5 million, requiring an additional payment from Equinor to Valeura of USD$1.5 million ($1.9 million), which is recorded as an additional farm-in payment against exploration and evaluation assets.

2019 Planned Capital Programme

Valeura's 2019 capital programme will be almost entirely focused on the drilling and testing of wells to delineate and demonstrate commerciality of the unconventional BCGA play discovered by Yamalik-1 in 2017. Funds are also allocated for the tie-in of these wells to allow for production and sales of any discovered gas.

The plan for capital expenditures for the 2019 BCGA programme is as follows:

Operation	Net VLE Cost (in dollars)	Anticipated Timing
Test and complete Inanli-1 (Banarli)	$0	Q1 2019 – Q2 2019
Drill and Test Devepinar-1 (West Thrace)	$12,000,000	Q1 2019 – Q3 2019
Workovers and Production Testing of BCGA Wells	$4,000,000	2019
Facilities Capital and Tie-in for 3 wells	$1,500,000	2019
G&G and studies	$1,500,000	2019
Total:	**$19,000,000**	

The table above primarily outlines the deep BCGA programme. In support of its conventional, shallow production, Valeura also plans to spend approximately $1.5 million for workovers, abandonment and restoration and other facilities maintenance projects on the TBNG JV lands. The total capital budget for 2019 is approximately $20.5 million.

A third appraisal well has been deferred while the Company evaluates the production testing results of Inanli-1 and Devepinar-1 over the course of 2019.

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

Liquidity, Financing and Capital Resources

	Three months ended	
	March 31, 2019	March 31, 2018
Opening cash position	**$ 62,380**	$ 11,108
Inflow of funds		
Share issuance – net of share issuance costs	**-**	55,402
Changes in non-cash working capital[10]	**5,077**	-
Banarli Farm-in	**1,930**	-
Restricted Cash	**50**	91
Proceeds from stock option exercises	**266**	-
Foreign exchange on cash	**-**	79
Adjusted funds flow[11]	**454**	545
	7,777	56,117
Outflow of funds		
Capital expenditures[12]	**(5,682)**	(874)
Decommissioning costs incurred	**(11)**	(25)
Principal payment on lease	**(32)**	-
Changes in non-cash working capital	**-**	(9,427)
Foreign exchange on cash	**(585)**	-
	(6,310)	(10,326)
Closing cash position	**$ 63,847**	$ 56,899

Capital Funding and Resources

As at March 31, 2019, Valeura's working capital[13] balance was $56.1 million including cash of $63.8 million. Valeura's 2019 opening cash position was $62.4 million. In Q1 2019, the Company utilised this opening cash balance plus funds flow from operations to fund an exploration and development capital programme of $5.7 million. In addition, the Company has recorded a payment of $1.9 million from Equinor related to the under-funding of the 3D seismic commitment under the Banarli Farm-in agreement.

Financial Capacity

As at March 31, 2019 the Company's working capital[13] was $56.1 million. The working capital position is more than sufficient to fund the planned capital programme for 2019 of $20.5 million.

[10] 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.

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

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

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

Capital Management

The Company’s objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through expenditures on exploration and development activities while maintaining a strong financial position. The Company’s capital structure includes working capital and shareholders’ equity. Currently, total capital resources available include working capital and funds flow from operations.

The Company’s capital expenditure includes expenditures in oil and gas activities which may or may not be successful. The Company makes adjustments to the capital structure in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. In order to maintain or adjust the capital structure, the Company may, from time to time, issue shares, adjust its capital spending or issue debt instruments. The Company is not currently subject to any externally imposed capital requirements while it maintains operatorship over all the lands in the Thrace Basin. An exception to this statement could occur at the end of 2019, if Equinor completes its earning obligations under the Banarli Farm-in and thereby earns a 50 percent working interest in the deep rights at Banarli and subsequently exercises its option to take operatorship of the deep rights and propose a more significant drilling programme including a more extensive pilot project, for which the Company would have to contribute its 50 percent participating interest. Such a programme could result in a more significant capital commitment than currently forecast, and may necessitate the Company assessing alternatives including the availability of equity and debt capital to fund the programme.

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 funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

Restricted Cash and Licence Deposits

The Company has restricted cash in the amount of $0.2 million (2018 - $0.3 million) that is securing licence deposits with the General Directorate of Mining and Petroleum Affairs of the Republic of Turkey (“GDMPA”), and a further $0.1 million (2018 - $0.1 million) on deposit with the GDMPA. This restricted cash and deposit is security for decommissioning or abandonment obligations and ongoing work programmes on the Company’s Turkish licences. These deposits and restricted cash equal the amount to satisfy the underlying commitments with the GDMPA and there are no other outstanding commitments. As the expected abandonment date and work programmes for these assets is more than one year from March 31, 2019, this restricted cash and deposit have been classified as non-current in the Company’s financial statements.

Effective April 10, 2019, the Company renewed its Account Performance Security Guarantee (“APSG”) facility with Export Development Canada (“EDC”). The APSG, which was issued to National Bank of Canada (“NBC”) allows the Company to use the APSG as collateral for certain letters of credit issued by NBC. The facility is effective from April 10, 2019 to March 31, 2020 with a limit of US$4.5 million and can be renewed on an annual basis. The Company has issued approximately US$2.5 million in letters of credit under the APSG facility at current exchange rates.

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

Selected Quarterly Information

	Three months ended			
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Total daily production (boe/d)	768	623	655	736
Average wellhead price ($/boe)	$ 56.17	$ 55.00	$ 39.83	$ 44.06
Petroleum and natural gas sales	3,880	3,150	2,401	2,949
Cash provided by (used in) operating activities	(401)	5,309	(1,511)	(447)
Adjusted funds flow (used) [14]	454	3,079	(430)	461
Per share, basic and diluted	0.01	0.04	(0.01)	0.01
Net loss	(3,070)	(634)	(2,647)	(1,404)
Per share, basic and diluted	$ (0.04)	$ (0.01)	$ (0.03)	$ (0.02)
	Three months ended			
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**
Total daily production (boe/d)	859	1,038	1,024	934
Average wellhead price ($/boe)	$ 44.87	$ 40.03	$ 42.14	$ 44.28
Cash provided by (used in) operating activities	(3,935)	7,484	(2,943)	(1,128)
Petroleum and natural gas sales	3,469	3,824	3,970	3,764
Adjusted funds flow (used) [14]	545	(446)	1,165	959
Per share, basic and diluted	0.01	(0.01)	0.02	0.01
Net loss	(2,435)	(946)	(4,911)	(526)
Per share, basic and diluted	$ (0.03)	$ (0.01)	$ (0.07)	$ (0.01)

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

- Revenue is directly impacted by the Company's ability to mitigate natural production declines with production additions from an on-going capital expenditure programme and acquisitions.
- Valeura has benefited from relatively high natural gas prices and netbacks in Turkey compared to North America, although the weakening of the TL since 2017 reduced wellhead price realisations throughout 2017 and the first nine months of 2018. The 2018 increases to the BOTAS Reference Price has resulted in higher wellhead price realisation in Q4 2018 and Q1 2019.
- With its revenues in TL, capital expenditures primarily in USD and reporting currency in CAD, Valeura has a high level of foreign exchange and currency translation exposure.

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

Critical Accounting Policies

Use of Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reader is referred to Valeura's December 31, 2018 audited consolidated financial statements and MD&A for a description of estimates and judgments.

Changes in Significant Accounting Policies

Valeura adopted IFRS 16, Leases, on January 1, 2019 on a modified retrospective basis.

In January 2016, the IASB issued the complete IFRS 16 Leases ("IFRS 16") which replaces IAS 17, Leases. Under IFRS 16, a single recognition and measurement model applies for lessees which will require recognition of assets and liabilities for most leases. Valeura has elected to use the modified retrospective approach upon adoption and therefore the comparative information has not been restated. The Company has elected to apply the optional exemptions for short-term and low-value leases. The lease payments associated with these leases are recognised as expenses as incurred over the lease term.

The Company recognises a right-of-use asset (''ROU") and a lease liability at the lease commencement date. The ROU asset is initially measured at cost based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Valeura presents ROU as its own line item on the consolidated statement of financial position. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the ROU is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The average depreciation term is 1.5 to 2 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero. Lease payments are applied against the lease obligation, with a portion reflected as interest expense using the effective interest rate method. Valeura presents the lease liability as its own line item on the consolidated statement of financial position.

The effect of initially applying the standard was a $0.2 million increase to the lease liability, with a corresponding ROU asset recorded. The ROU asset was measured at the amount equal to the lease liability on January 1, 2019 with no impact on deficit. The lease liability was measured at the present value of the remaining lease payments, discounted using Valeura's incremental borrowing rate as at January 1, 2019. The weighted average incremental borrowing rate used to determine the lease obligation on adoption was approximately 28% percent. The ROU assets and lease liabilities recognised relate to leases on the Company's offices and facilities in Turkey.

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

The preparation of the condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include

Incremental borrowing rate: The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the ROU assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

The table below shows the impact on the consolidated statement of loss upon adoption of IFRS 16 for the three months ended March 31, 2019 is a reduction to earnings as follows:

Cost	Total
Depreciation of right of use asset	$ (23)
Interest Expense	(9)
Lease principal payments	21
Balance, March 31, 2019	**$ (11)**

Cash flow from financing activities for the three months ended March 31, 2019 was $0.03 million lower due to the deduction of the lease payments reflected in this section while cash flow from operating activities increased $0.03 million.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2019 and ending on March 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at March 31, 2019 other than those previously disclosed under the Commitments and Contractual Obligations section of this MD&A.

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

There are a number of risk factors that the Company faces as a participant in the international oil and gas industry which are inherently risky.

All risk factors have not materially changed from December 31, 2018. The reader is referred to Valeura's December 31, 2018 audited consolidated financial statements, MD&A and 2018 AIF for a description of these risks.

Oil and Gas Advisories

Short Production Test Rates

The short production test rates disclosed in this MD&A are preliminary in nature and may not be indicative of stabilised on-stream production rates. Initial on-stream production rates are typically disclosed with reference to the number of days in which production has been measured. Initial on-stream production rates are not necessarily indicative of long-term performance or ultimate recovery. To date, Valeura's shallow gas conventional wells and high-pressure stimulated unconventional tight gas wells have exhibited relatively high decline rates at more than 50% and 75%, respectively, in their first year of production.

There is currently no long-term flow information for the deep, unconventional BCGA. While the same geological formations that are producing gas in the shallow are being targeted in the deep, unconventional play, they are in a different depth and pressure environment and the type curves are not expected to be indicative of deep, unconventional well production rates. A pressure transient analysis or well-test interpretation has not been carried out in respect of the production tests on the Yamalik-1 well. All natural gas rates and volumes are presented net of any load fluids.

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 2019 work programme and capital budget; the timeliness and costs for the deep drilling programme in 2019; the Company's plan to re-enter Yamalik-1 and conduct further selective zonal flow testing and the timing of that programme; the timing of high-pressure stimulation and testing Inanli-1, the timing of high-pressure stimulation and testing operations for Devepinar-1; the Company's intention to focus on the completion and production testing of Yamalik-1, Inanli-1 and Devepinar-1; use of information from Yamalik-1, Inanli-1 and Devepinar-1 to determine locations for future drilling activity; the assessment of resources in the test formations; the potential of a basin-centered gas play in the Thrace Basin; management's belief regarding the potential of the Company's deep basin-centred gas play and shallow gas business in the Thrace Basin; the Company's belief in the pervasiveness of over-pressured gas across the Company's Thrace Basin lands; the Company's expectation that it will maintain operatorship of the deep rights on the Banarli Lands and West Thrace Lands during most of 2019 and through the drilling, completion and testing of a three well appraisal programme; the Company's expectation that Equinor will fulfill its obligations under the Banarli Farm-in; the Company's commitment to safety, environmentally responsible practices and optimising operational and administrative functions; the Company's business strategy and outlook, operational plans, and expected capital expenditures; and the availability of operating cash flow and the ability to finance development through to 2020 from existing working capital and operating cash flow.

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, and in particular the period of political change and uncertainty in Turkey from 2016 to 2018; continued safety of operations and ability to proceed in a timely manner; continued operations of and approvals forthcoming from the Turkish government in a manner consistent with past conduct; future seismic and drilling activity on the expected timelines; the prospectivity of the TBNG JV Lands and Banarli Exploration Licences, including the deep potential; the continued favourable pricing and operating netbacks in Turkey; future production rates and associated operating netbacks and cash flow; decline rates; future sources of funding; future economic conditions; future currency exchange rates; the ability to meet drilling deadlines and other requirements under licences and leases; and the Company's continued ability to obtain and retain qualified staff and equipment in a timely and cost efficient manner. In addition, the Company's work programmes and budgets are in part based upon expected agreement among joint venture partners and associated exploration, development and marketing plans and anticipated costs and sales prices, which are subject to change based on, among other things, the actual results of drilling and related activity, availability of drilling, high-pressure stimulation and other specialised oilfield equipment and service providers, changes in partners' plans and unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect.

Forward-looking information involves significant known and unknown risks and uncertainties. Exploration, appraisal, and development of oil and natural gas reserves are speculative activities and involve a degree of risk. A number of factors could cause actual results to differ materially from those anticipated by the Company including, but not limited to: the risks of currency fluctuations; changes in gas prices and netbacks in Turkey; uncertainty regarding the contemplated timelines and costs for the deep evaluation; the risks of disruption to operations and access to worksites, threats to security and safety of personnel and potential property damage related to political issues or civil unrest in Turkey; 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 2018 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.