valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2010 and 2009

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of November 24, 2010. Valeura evolved from two predecessor companies: PanWestern Energy Inc. ("PanWestern"), a public company that was listed on the TSX Venture Exchange, and Northern Hunter Energy Inc. ("Northern Hunter"), a private oil and gas company, both of which operated in Canada. On April 9, 2010, PanWestern and Northern Hunter completed a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta) whereby PanWestern acquired all of the assets and liabilities of Northern Hunter. Because the shareholders of Northern Hunter acquired more than 50% of the shares in the merged entity, the transaction was accounted for as a reverse take-over whereby Northern Hunter was considered the acquirer for accounting purposes. As part of the Arrangement, the Board of Directors of PanWestern was reconstituted with members from Northern Hunter and the management team became that of Northern Hunter. Subsequent to completion of the Arrangement, PanWestern changed its name to Valeura Energy Inc. as approved at PanWestern's annual and special meeting of shareholders on June 29, 2010.

Valeura is currently engaged in the exploration, development and production of petroleum and natural gas in Western Canada and Turkey. The Company is continuing to pursue a strategy to expand internationally to selected countries in the Middle East and North Africa region, the Mediterranean Basin and Latin America. Valeura's shares are traded on the TSX Venture Exchange under the trading symbol VLE.

Basis of Presentation

These unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2010 reflect the financial position, operating results and cash flows of Valeura (formerly Northern Hunter for accounting purposes) and have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). These statements reflect the same accounting policies as the most recently audited annual financial statements of Northern Hunter, except as described in Note 2 of the consolidated financial statements. The disclosures provided in Note 2 are incremental to those included in the audited annual financial statements of Northern Hunter and, certain disclosures which are normally required to be included in the notes to the consolidated financial statements, have been condensed or omitted. These unaudited interim consolidated financial statements should therefore be read in conjunction with the audited financial statements and notes thereto of Northern Hunter for the three months ended December 31, 2009 and for the fiscal year ended September 30, 2009. These dates reflect the change in Northern Hunter's year-end from September 30 to December 31 adopted on March 1, 2010.

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, the determination of proved reserves, environmental and asset retirement 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.

Special Note Regarding 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 "funds flow from operations" (net loss for the period adjusted for non-cash items in the statement of cash flows) are not GAAP measures and do not have standardized meanings prescribed by GAAP.

Forward-looking Statements – Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking 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, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A may include, but is not limited to, information with respect to: the Company's growth strategy, operational decisions and the timing thereof, development and exploration plans and the timing thereof; and future production levels. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, both domestically and internationally; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in foreign countries; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking information. The material risk factors affecting the Company and its business are similar to those of other companies engaged in the business of exploring for and producing oil and gas, both domestically and in foreign countries.

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.

Highlights and Selected Financial Information

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Financial				
Petroleum and natural gas sales	**$ 794,215**	$ 897,873	**$ 2,548,440**	$ 2,397,432
Net loss	**(2,198,913)**	(1,174,449)	**(7,089,413)**	(2,175,288)
Per share, basic and diluted	**(0.01)**	(0.02)	**(0.05)**	(0.03)
Funds flow from operations[1]	**(653,959)**	(176,777)	**(1,838,402)**	(134,274)
Per share, basic and diluted	**$ 0.00**	$ 0.00	**$ (0.01)**	$ 0.00
Production volumes				
Crude oil and NGL's (bbl/d)	**92**	115	**89**	93
Natural gas (mcf/d)	**906**	1,325	**955**	1,221
Total (boe /d)	**243**	336	**248**	297
Sales prices				
Natural gas (per mcf)	**$ 3.49**	$ 2.79	**$ 4.05**	$ 3.53
Crude oil (per bbl)	**65.06**	63.15	**67.23**	58.08
Natural gas liquids (per bbl)	**38.95**	31.28	**43.52**	28.52
Total (per boe)	**35.54**	29.02	**37.62**	29.62
Capital expenditures	**$ 1,201,856**	$ 280,178	**2,094,450**	3,072,557
Net working capital (deficiency)[2]			**25,539,767**	(5,019,577)
Cash and cash equivalents			**25,064,416**	-
Credit facility			**$ -**	$ 4,366,987
Weighted average shares outstanding (basic and diluted)	**198,411,198**	67,285,829	**144,576,681**	67,285,829

1. Funds flow from operations is calculated as cash flow from operating activities before adjustments for asset retirement expenditures and net changes in non-cash working capital
2. Net working capital is calculated as cash, working capital and demand credit facility borrowings

Outstanding Share Data

As at September 30, 2010	
Common shares	198,677,125
Stock options	10,235,000
Performance warrants	27,967,500

The Company

Valeura Energy Inc. ("Valeura" or the "Company") is currently engaged in the exploration, development and production of petroleum and natural gas in Western Canada and Turkey. The Company is continuing to pursue a strategy to expand internationally to selected countries in the Middle East and North Africa region ("MENA"), the Mediterranean Basin and Latin America. Valeura's shares are traded on the TSX Venture Exchange under the trading symbol VLE.

Valeura evolved from two predecessor companies: PanWestern Energy Inc. ("PanWestern"), a public company that was listed on the TSX Venture Exchange, and Northern Hunter Energy Inc. ("Northern Hunter"), a private oil and gas company. PanWestern and Northern Hunter entered into a reorganization and arrangement agreement on February 18, 2010 to effect a merger of the companies. The associated Plan of Arrangement (the "Arrangement") closed on April 9, 2010.

Plan of Arrangement

Under the terms of the Arrangement, each outstanding Northern Hunter common share was exchanged for 4.5 shares of PanWestern (based on a deemed price of $0.20 per PanWestern common share and $0.90 per Northern Hunter common share). Given the nature of the transaction, it was accounted for as a reverse take-over of PanWestern by Northern Hunter, whereby Northern Hunter is considered the acquirer for accounting purposes.

The Arrangement was approved by the shareholders of Northern Hunter at a special meeting of shareholders and by the Court of Queen's Bench of Alberta. The transactions were approved by PanWestern shareholders who held or exercised control over more than 50% of the PanWestern shares by way of a written consent. The TSX Venture Exchange (the "**TSXV**") also approved the transaction.

At the annual general meeting of PanWestern shareholders on June 29, 2010, approval was received to change the company name to Valeura Energy Inc.

Financings

Upon closing of the Arrangement on April 9, 2010, PanWestern was recapitalized through a non-brokered equity private placement of $6,000,000.

On April 16, 2010, PanWestern also closed a private placement of 51,100,000 common shares at a price of $0.47 per share for aggregate gross proceeds of $24,017,000 (net $22,513,423 after share issue issuance costs). This financing represented an important step in building financial capacity to implement the new business plan of the Company.

At September 30, 2010, the Company had a working capital position of $25,539,767.

Comparative Amounts

Upon completion of the Arrangement, Northern Hunter shareholders held approximately 57.4% of the issued and outstanding shares of PanWestern, prior to considering the effect of the equity financings described above. As a result, the Arrangement is accounted for as a purchase of PanWestern by Northern Hunter using the purchase method based on the fair values of assets and liabilities of PanWestern. Therefore, the comparative amounts for 2009 in the consolidated financial statements are the stand alone accounts for Northern Hunter, which was a private company in 2009.

Outlook

Completion of the Arrangement and subsequent financings have positioned the Company to aggressively pursue a new international growth strategy led by the new management team and board of directors which have significant domestic and international experience.

Turkish Operations

On September 1, 2010, the Company entered into a farm-in agreement with two affiliated Turkish companies. The farm-in agreement allows Valeura to earn a beneficial interest in one production lease and eight exploration licences in southeast Turkey. The Company committed to spending between $8.8 million USD (Phase I) to the end of 2010 to earn a 25% beneficial interest in three licenses at Karakalise and the Kahta lease, and a 14.95% beneficial interest in five licenses at Rubai. Valeura has the option to increase its earning expenditures up to a total of $17.6 million USD (Phase II) before December 31, 2011 to increase its beneficial interest on a sliding scale basis up to 50% on the Kahta lease and Karakalise licences and 29.9% on the Rubai licences. The programs in each phase involve a flexible mix of seismic, exploration and appraisal drilling, and recompletions over all licences and potential redevelopment work at Kahta, an existing heavy oil production lease. The Company's Phase I and potential Phase II programs on the exploration licences are aimed at maximizing retention of prospective licences prior to expiry. The Phase I expenditures should be substantially completed in 2010 while the Phase II expenditures will comprise the vast majority of the committed budget for 2011. The Company has the cash available to fund the entire Phase I and Phase II earning expenditures.

The capital program to earn Phase I above is underway as at September 30, 2010. A comprehensive reservoir study on Kahta is well underway and will likely be followed by a 3D seismic program in Phase II. The objective of the Kahta study is to define potential redevelopment activities including recompletions, infill drilling, step out drilling of satellite structures and secondary recovery techniques. The Company is currently shooting a 250 km 2D seismic program over the Karakalise licences, which will be followed by the drilling of one well in conjunction with the recompletion of an existing well in the fourth quarter of 2010. This activity is intended to establish production or, in the case of an exploration well, make a discovery, and extend two of the Karakalise exploration licences for three years. During the third quarter of 2010, the Company recompleted a well at Ogunduk (Rubai licence) that appears capable of producing 30 to 50 barrels per day of heavy oil at a high water cut. The well is currently suspended pending the results of an appraisal well that may be drilled in the first quarter of 2011. It is expected that an additional 90 km of 2D seismic will be shot over the Rubai licenses in the fourth quarter of 2010 to mature two to three drilling locations in 2011. The remainder of 2010 is anticipated to be very active in Turkey with the potential completion of the Phase I earning expenditures of $8.8 million USD by the end of the year.

Business Development

The farm-in arrangement in Turkey establishes a position for Valeura to potentially create a significant operation in the MENA region. The Rubai exploration licences in particular are in proximity to major hydrocarbon basins in Syria and Iraq creating greater interest for further business development in this region. The Company has put considerable effort into creating further relationships and potential deal flow in Turkey, including both oil opportunities in southeast Turkey and premium gas opportunities in the Thrace Basin in northwest Turkey near Istanbul. The Thrace Basin is the main gas producing region of the country where high natural gas prices in excess of US$7.00 per mcf are being realized by producers. The Company continues to pursue production and development opportunities in this basin that would diversify the existing assets in Turkey and provide access to immediate cash flow growth. The Company remains focused on obtaining early stage production whether through acquisition or development initiatives.

The Company is continuing to pursue its strategy to build a global exploration and production company with a portfolio of assets in up to two regions of the world. Selected countries in the MENA region, the Mediterranean Basin and Latin America remain of prime interest but the Company may pursue acquisitions in other regions on an opportunistic basis that otherwise meet its criteria of acceptable political and contract risk, attractive fiscal and royalty regimes, established infrastructure and significant deal flow.

The Company is continuing to pursue farm-ins, asset acquisitions and corporate acquisitions to execute its growth strategy. Targets include onshore oil and gas assets (conventional and non-conventional) and undercapitalized companies that can provide material exploitation, development and step-out exploration upside. The Company aims to leverage its knowledge of certain countries and hydrocarbon basins and its proven technical and operational skills in applying best available technologies to capture value. The flow of potential international opportunities continues to be robust.

Results of Operations

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Petroleum and natural gas sales	**$ 794,215**	$ 897,873	**$ 2,548,440**	$ 2,397,432
Royalties	**(75,987)**	(63,748)	**(268,687)**	(196,326)
Production costs	**(451,060)**	(590,221)	**(1,303,725)**	(1,441,544)
Transportation	**(22,703)**	(21,925)	**(68,624)**	(57,367)
Operating netback	**244,465**	221,979	**907,404**	702,195
Other income	**45,780**	-	**73,470**	-
General and administrative	**(946,620)**	(361,984)	**(2,013,851)**	(763,927)
Interest	**-**	(36,772)	**(51,243)**	(72,542)
Transaction costs	**2,416**	-	**(754,182)**	-
Funds flow from operations	**(653,959)**	(176,777)	**(1,838,402)**	(134,274)
Non-cash expenses				
Transaction costs	**-**	-	**(264,410)**	-
Shares issued for services (G&A)	**(98,560)**	-	**(98,560)**	-
Stock based compensation	**(587,112)**	(138)	**(2,439,614)**	(2,423)
Foreign exchange loss	**(25,533)**	-	**(25,533)**	-
Depletion, depreciation and accretion	**(833,749)**	(998,416)	**(2,422,894)**	(2,225,254)
Future income tax recovery	**-**	882	-	186,663
Net loss	**$ (2,198,913)**	$ (1,174,449)	**$ (7,089,413)**	$ (2,175,288)

Operating Netbacks

	Three months ended		Nine months ended	
(per boe)	**September 30, 2010**	September 30, 2009	**September 30, 2010**	September 30, 2009
Petroleum and natural gas sales	**$ 35.54**	$ 29.02	**$ 37.62**	$ 29.62
Royalties	**(3.40)**	(2.06)	**(3.97)**	(2.43)
Production costs	**(20.18)**	(19.08)	**(19.24)**	(17.81)
Transportation	**(1.02)**	(0.71)	**(1.01)**	(0.71)
Operating netback	**$ 10.94**	$ 7.17	**$ 13.40**	$ 8.67

Petroleum and Natural Gas Production

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Daily production				
Crude oil & NGL's(bbl/d)	**92**	115	**89**	93
Natural gas (mcf/d)	**906**	1,325	**955**	1,221
Total (boe/d)	**243**	336	**248**	297

Average production volumes decreased 28% from 336 boe/d in Q3-2009 to 243 boe/d in Q3-2010. The decrease is due primarily to production declines and increased water production at Northern Hunter's Grand Forks/Hays properties only partially offset by the inclusion of production from PanWestern. Average production volumes of 248 boe/d for the nine months ended September 30, 2010 are 16% lower than the comparative period in 2009 for the same reasons.

Pricing Information

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Average benchmark prices				
Crude oil – Edmonton Light (per bbl)	**$ 74.44**	$ 71.36	**$ 76.53**	$ 62.45
Natural gas – AECO 5A (per mcf)	**3.55**	2.92	**4.12**	3.77
Valeura's average realized prices				
Crude oil (per bbl)	**65.06**	63.15	**67.23**	58.08
Natural gas liquids (per bbl)	**38.95**	31.28	**43.52**	28.52
Natural gas (per mcf)	**$ 3.49**	$ 2.79	**$ 4.05**	$ 3.53

Realized prices for oil, natural gas liquids and natural gas increased in the three and nine month periods of 2010 compared to the same periods in 2009. However, natural gas prices remain at weak levels, which has had the effect of deferring any capital expenditures for new drilling on the Canadian properties at Grand Forks/Hays.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Revenues by product				
Crude oil	**$ 432,547**	$ 448,105	**$ 1,232,965**	$ 974,963
Natural gas liquids	**70,620**	110,083	**258,612**	245,021
Natural gas	**291,048**	339,685	**1,056,863**	1,177,448
Total revenues	**$ 794,215**	$ 897,873	**$ 2,548,440**	$ 2,397,432

Petroleum and natural gas sales revenues for Q3-2010 were comprised of 63% oil and natural gas liquids and 37% natural gas. Lower revenues for Q3-2010 as compared to Q3-2009 are primarily the result of lower crude oil and natural gas production, which was only partially offset by increased liquids and gas prices. Higher petroleum and natural gas sales revenues for the nine months ended September 30, 2010 as compared to the same period in 2009 were due to higher realized liquids and gas prices during 2010 partially offset by lower production volumes.

Royalties

	Three months ended		**Nine months ended**	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Royalty expenses ($)	**75,987**	63,748	**268,687**	196,326
Percentage of revenue (%)	**9.6%**	7.1%	**10.5%**	8.2%

Royalties increased for Q3-2010 as compared with Q3-2009 due to higher overall royalty rates. Royalty rates vary across periods depending on the production mix, prices and individual well production rates. The Company has benefited from the New Well Royalty Reduction Program in Alberta on wells brought on stream after April 1, 2009 in the Grand Forks/Hays area. Certain wells at Grand Forks/Hays are no longer eligible for the reduced royalty rate program that was in effect to the end of Q1-2010.

Operating Costs

	Three months ended		**Nine months ended**	
	September 30, 2010	September 30, 2009	**September 30, 2010**	**September 30, 2009**
Production costs	**$ 451,060**	$ 590,221	**$ 1,303,725**	$ 1,441,544
Transportation costs	**22,703**	21,925	**68,624**	57,367
Total operating costs	**473,763**	612,146	**1,372,349**	1,498,911
per boe	**$ 21.20**	$ 19.79	**$ 20.25**	$ 18.52

Overall operating costs decreased for Q3-2010 as compared to Q3-2009 primarily due to lower production. On a unit cost basis, costs increased to $21.20/boe in Q3-2010 versus $19.79/boe in Q3-2009. Operating costs at Grand Forks/Hays are relatively high due to the cost to truck and process emulsion and equipment rental costs. The Company has purchased certain rental equipment and installed downhole pump equipment in the Grand Forks/Hays area to contain operating costs and further mitigate production declines.

Unit operating costs were also higher in the first nine months of 2010 compared to 2009 reflecting the same factors that drove unit costs higher in the quarter.

General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2010 ($)	September 30, 2009 ($)	**September 30, 2010 ($)**	September 30, 2009 ($)
General and administrative	**$ 632,591**	$ 502,631	**$ 1,435,274**	$ 1,232,840
Business development	**450,635**	-	**777,263**	-
Total gross general and administrative expenses	**1,083,226**	502,631	**2,212,537**	1,232,840
Recoveries	**(20,791)**	(6,583)	**(34,124)**	(66,725)
Capitalized general and administrative expenses	**(17,255)**	(134,064)	**(66,002)**	(402,188)
Total net general and administrative expenses	**$ 1,045,180**	$ 361,984	**$ 2,112,411**	$ 763,927

General and administrative ("G&A") costs increased significantly in Q3-2010 as compared with Q3-2009 due mainly to increased costs related to international business development activities consistent with the Company's new international growth strategy. Costs included in business development include third party agent's fees, consulting, legal and travel costs. Other G&A costs are higher due to higher salaries and office costs related to an increase in personnel. The Company capitalized $17,255 of general and administrative expenses in Q3-2010, compared to $134,064 for Q3-2009. Capitalization and recovery of general and administrative costs has been insignificant in 2010 mainly due to lower capital spending in Canada. Capital activity is expected to increase significantly in Turkey beginning in the fourth quarter of 2010 that would result in increased recoveries and capitalized G&A in future periods.

Net general and administrative costs increased in the nine month period ended September 30, 2010 as compared to the same period in 2009 as a result of the higher costs described above and lower capitalized general and administrative expenses. The lower capitalized general and administrative costs and overhead recoveries for the nine months ended September 30, 2010 reflect the reduced capital expenditure level as compared with the same period for 2009. For the nine month period ended September 30, 2010, the Company capitalized $66,002 of general and administrative expenses as compared to $402,188 for the same period in 2009.

Transaction Costs

Effective January 1, 2010, the Company adopted CICA Handbook standard Section 1582, "Business Combinations" under which acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. Costs incurred for the nine month period ended September 30, 2010 with respect to the Arrangement totaled $1,018,592 including $64,410 of non-cash expenses. These costs also included $200,000 of fees that were recognized as deferred transaction costs at December 31, 2009.

Interest

Interest expense reflects the use of bank debt to fund capital expenditures and operating activities. The Company completed an equity financing of $6,000,000 (net) in conjunction with the closing of the Arrangement on April 9, 2010, followed by a further $22,513,423 (net) private placement of common shares that closed on April 16, 2010. This enabled the Company to repay the outstanding Northern Hunter bank loan creating a net cash position as at September 30, 2010.

There was no interest expense in Q3-2010 as compared to Q3-2009 due to the repayment of bank debt during Q2-2010. The Company's $2,650,000 revolving demand facility and $1,000,000 million acquisition/development demand loan are currently undrawn.

Other Income

Other income of $45,780 (Q3-2009 – $nil) represents interest income related to cash on hand during Q3-2010. Interest income for the nine month period ended September 30, 2010 was $73,470 (nine month period ended September 30, 2009 - $nil).

Funds Flow from Operations

The net outflow of funds from operations for the Q3-2010 was $653,959 compared to net outflow of $176,777 in Q3-2009. The net outflow of funds in the current quarter was due to increased general and administrative costs associated with international business development activities. The net outflow of funds from operations of $1,838,402 for the nine months ended September 30, 2010 resulted from corporate acquisition transaction costs and the same factors stated above compared to net outflow of $134,274 for the same period in 2009.

Non-cash Expenses:

Non-cash Transaction Costs

In the nine month period ended September 30, 2010, the Company incurred $64,410 of non-cash transaction costs related to termination expenses for independent contractors upon closing the acquisition of PanWestern in Q2-2010 that were paid through the issuance of 113,000 common shares and $200,000 of non-cash transaction costs that were deferred from 2009.

Non-cash General & Administrative Charges

In Q3-2009, the Company incurred $98,560 of non-cash general and administrative costs related to the issuance of 349,504 shares to ONOC Resources Inc. ("ONOC"), a company that assisted in securing the farm-in agreement in Turkey. The issuance of these shares satisfied the terms of the consulting services agreement with ONOC under which Valeura agreed to pay ONOC a success fee equal to 1.5% of the farm-in deal value.

Stock-based Compensation

Stock-based compensation expenses are the non-cash expenses associated with the stock options and performance warrants issued to directors, officers, employees and consultants of the Company. During the first nine months of 2010, the Company issued 10,235,000 stock options and 27,967,500 performance warrants, resulting in an increase to stock-based compensation as compared to the first nine months of 2009. The fair value of the stock options and performance warrants issued were estimated at between $0.17 and $0.33/option and $0.16/warrant using the Black-Scholes option-pricing model. Northern Hunter had not granted stock options since 2008 and accordingly, the stock-based compensation expenses associated with the issue of previous stock options had been substantially amortized in both Q3-2009 and the nine months ended September 30, 2009.

Stock based compensation of $587,112 for Q3-2010 includes $55,255 to account for the remaining expense associated with the one-time revaluation of the 3,295,000 PanWestern options that were outstanding at the end of Q2-2010. The fair value attributed to the PanWestern options was $0.17 per share. This expense will not be incurred in future quarterly results as all the PanWestern options expired in Q3-2010.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion ("DD&A") for Q3-2010 of $833,749 was lower than $998,416 for Q3-2009 due to lower production volumes partially offset by a higher DD&A rate. DD&A for the nine month period ended September 30, 2010 of $2,422,894 was higher than $2,225,254 for the same period in 2009 due to a higher DD&A rate partially offset by lower volumes. The DD&A rate for Q3-2010 was $36.67 per boe as compared to $32.27 per boe for Q3-2009. The DD&A rate for the nine month period ended September 30, 2010 was $35.77 per boe compared to $27.49 for the same period in 2009. The higher DD&A rate in 2010 over 2009 reflects the effect of technical reserve revisions made by the independent reserve engineers in the estimation of the Company's crude oil and natural gas reserves at December 31, 2009.

Future income taxes

Although the Company has tax pools which exceed the net book value of its assets, a valuation allowance has been recorded to reflect the uncertainty regarding whether the excess is more likely than not to be realized in future periods.

As at September 30, 2010, the Company has approximately $24,100,000 of tax pools available to shelter future taxable income.

Capital Expenditures

The following summarizes the Company's capital spending during the periods indicated:

	Three months ended		**Nine months ended**	
Canada	**September 30, 2010**	September 30, 2009	**September 30, 2010**	September 30, 2009
Land	**$ (896)**	$ 39,855	**$ 2,552**	$ 53,041
Geological and geophysical	**-**	6,480	**-**	11,661
Drilling and completions	**443,344**	68,290	**874,482**	832,561
Equipment and facilities	**71,497**	31,491	**423,845**	1,774,767
Capitalized amounts and other	**32,585**	134,062	**138,245**	400,527
Canada total	**546,530**	280,178	**1,439,124**	3,072,557
Turkey				
Geological and geophysical	**320,360**	-	**320,360**	-
Drilling and completions	**324,536**	-	**324,536**	-
Capitalized amounts	**10,430**	-	**10,430**	-
Turkey total	**655,326**	-	**655,326**	-
Consolidated total	**$ 1,201,856**	$ 280,178	**$ 2,094,450**	$ 3,072,557

Canada

The capital program for Q3-2010 was comprised mainly of drilling and completing one well in the Milo area and installation of pumping equipment. Capital expenditures for the first nine months of 2010 are significantly lower than the same period in 2009 due to reduced drilling activity.

Turkey

Phase I of the Turkish capital program to earn interests under the farm-in agreement was initiated in the third quarter of 2010. The Company incurred $255,000 of seismic costs in Q3-2010 as part of the 250 km 2D seismic program being conducted over the Karakalise licences. This program is still underway and is anticipated to better define a drillable prospect to be spudded in Q4-2010. The seismic program at Karakalise and Rubai is budgeted at $4,000,000 and is anticipated to be completed in Q4-2010. The remaining geological and geophysical expenditures relate to a comprehensive reservoir study on Kahta, an existing heavy oil production lease. The study is expected to be completed in the fourth quarter of 2010 and will likely be followed by a 3D seismic program in 2011. The objective of the reservoir study is to define potential redevelopment activities including recompletions, infill drilling, step out drilling of satellite structures and secondary recovery techniques. During the third quarter of 2010, the Company incurred expenditures of $325,000 for the recompletion of a well at Ogunduk (Rubai licence) which established production capability of 30 to 50 barrels per day of heavy oil. The remainder of 2010 is anticipated to be very active in Turkey with the potential completion of the Phase I earning expenditures of $8.8 million USD by the end of 2010.

Share Capital

Common Shares	Number of Shares		Amount
Northern Hunter			
Balance, December 31, 2009	14,030,406	$	10,795,576
Tax effect of flow-through shares	-		(139,200)
Issued on exercise of Northern Hunter Old Options	809,000		759,550
Issued on contract termination	113,000		64,410
Contributed surplus on option exercise	-		135,841
Balance April 9, 2010	14,952,406		11,616,177
Conversion of Northern Hunter to PanWestern	67,285,829		11,616,177
Issued on acquisition of PanWestern	49,941,792		6,325,960
Issued pursuant to private placement	30,000,000		6,000,000
Issued pursuant to private placement	51,100,000		24,017,000
Issued for services received	349,504		98,560
Share issue costs	-		(1,503,577)
Balance, September 30, 2010	**198,677,125**	**$**	**46,554,120**

Concurrently with the closing of the Arrangement on April 9, 2010, 809,000 Northern Hunter stock options were exercised, resulting in the issuance of 809,000 Northern Hunter common shares for total cash proceeds of $759,550.

On closing of the Arrangement, certain independent contractor agreements were terminated. In connection with the termination, the Company issued 113,000 Northern Hunter common shares with a deemed value of $64,410.

On closing of the Arrangement, Northern Hunter common shares were converted to 67,285,829 common shares of PanWestern and 49,941,792 shares were issued as a result of the acquisition of PanWestern. In conjunction with the Arrangement, the Company completed a $6,000,000 non-brokered private placement for the issue of 30,000,000 common shares at a price of $0.20 per share.

On April 16, 2010, the Company closed a private placement of 51,100,000 common shares at a price of $0.47 per share for aggregate proceeds of $24,017,000 ($22,513,423 net of share issue costs).

On September 8, 2010, the Company issued 349,504 shares with a deemed value of $98,560 to ONOC under terms of a consulting services agreement whereby a success fee equal to 1.5% of the farm-in deal value in Turkey was payable on closing of the farm-in.

As at September 30, 2010, and the date of this MD&A, the Company had 198,677,125 common shares outstanding.

Performance Warrants

On January 8, 2010 Northern Hunter issued 6,215,000 Northern Hunter New Warrants to directors, officers and consultants, under which 6,215,000 common shares may be acquired at a price of $0.90 per common share, expiring on January 8, 2015. On closing of the Arrangement, these Northern Hunter New Warrants were cancelled and each holder received 4.5 PanWestern New Warrants at an exercise price of $0.20 per PanWestern share (total of 27,967,500 PanWestern New Warrants).

The vesting of the PanWestern New Warrants is based on the value attributed to the common shares at certain points in time and the continued employment of the relevant holder in the following manner (per the conversion terms under the Arrangement):

(1) if the applicable holder of PanWestern New Warrants continues in his or her capacity (as an employee, officer or director) with the Company until January 8, 2011; and at any time during the term of the PanWestern New Warrants, the consecutive 20-day weighted average market price of the common shares is equal to or greater than $0.40 per share, then one-third of the PanWestern New Warrants vest;

(2) if the applicable holder of PanWestern New Warrants continues in his or her capacity (as an employee, officer or director) with the Company until July 8, 2011; and at any time during the term of the PanWestern New Warrants, the consecutive 20-day weighted average market price of the common shares is equal to or greater than $0.50 per share, then one-third of the PanWestern New Warrants vest; and

(3) if the applicable holder of PanWestern New Warrants continues in his or her capacity (as an employee, officer or director) with the Company until January 8, 2012; and at any time during the term of the PanWestern New Warrants, the consecutive 20-day weighted average market price of the common shares is equal to or greater than $0.60 per share, then one-third of the PanWestern New Warrants vest.

The market price vesting condition for all outstanding performance warrants has been met. For full vesting of the performance warrants, the time conditions detailed above must still be met.

All of the Northern Hunter Old Warrants issued in 2006 were cancelled for no additional consideration on closing of the Arrangement.

As at September 30, 2010 and the date of this MD&A, there are a total of 27,967,500 warrants outstanding in Valeura.

Stock Options

There were 809,000 outstanding exercisable Northern Hunter Old Options as at March 31, 2010, under which the holders could acquire 809,000 common shares at an average exercise price of $0.94 per common share. All of these options were exercised concurrently with the closing of the Arrangement.

On January 8, 2010, Northern Hunter granted 2,130,000 Northern Hunter New Options to directors, officers and consultants, under which 2,130,000 common shares may be acquired at a price of $0.90 per common share. The options were exercisable as to one-third on each anniversary date of the grant, and had a seven year term. On closing of the Arrangement, these options were cancelled and each holder received 4.5 PanWestern New Options at an exercise price of $0.20 per share (total of 9,585,000 PanWestern New Options).

Upon closing of the Arrangement, the Company carried forward 3,295,000 PanWestern options that were fully vested and which were outstanding at June 30, 2010. The options expired and were forfeited in Q3-2010.

On September 20, 2010, Valeura issued 650,000 options to a new employee, exercisable as to one-third on each anniversary date and having a seven year term.

As at September 30, 2010, and the date of this MD&A, there were 10,235,000 options outstanding.

Liquidity, Financing and Capital Resources

Capital Resources

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Opening cash position	$ 28,547,522	$ -
Inflow of funds		
Cash received on PanWestern acquisition	-	6,043,902
Issuance of shares (net of share issue costs)	-	29,272,973
	-	35,316,875
Outflow of funds		
Cash outflow from operations	653,959	1,838,402
Capital expenditures	1,201,856	2,094,450
Asset retirement costs incurred	15,864	15,864
Repayment of Bank Facility	-	3,759,592
Change in working capital & other	1,611,427	2,544,151
	3,483,106	10,252,459
Closing cash position	$ 25,064,416	$ 25,064,416

The completion of the Arrangement on April 9, 2010 between PanWestern and Northern Hunter resulted in a restructuring of Northern Hunter's financial position as follows:

- merged with PanWestern which had a cash position of $6,043,902
- completed a $6,000,000 (net) private placement of common shares at $0.20 per share
- subsequent to closing the Arrangement, closed a $22,513,423 (net) private placement of 51,100,000 common shares at $0.47 per share

As at March 31, 2010, Northern Hunter's working capital deficiency was $5,992,407, including a bank loan outstanding of $4,730,345. As a result of the above events which occurred in April 2010, the Company repaid all amounts owing under the credit facility and had a positive working capital position of $25,539,767 as at September 30, 2010 (including a cash position of $25,064,416). In conjunction with the Arrangement, transaction costs of $1,018,592 were incurred for the nine month period ended September 30, 2010.

As at September 30, 2010 the Company has $25,539,767 of working capital to fund a general and administrative expense budget in 2010 of approximately $3,100,000, including approximately $700,000 for business development costs. In addition, capital expenditures for the Canadian operations in 2010 are estimated at $1,500,000, of which $1,439,124 was expended in the nine months ended September 30, 2010. Q3-2010 capital expenditures in Turkey were $655,326.

Valeura's credit facilities are with a Canadian chartered bank and are comprised of a $2,650,000 revolving operating demand loan at an interest rate of bank prime plus 1.5% and a $1,000,000 development demand loan at an interest rate of bank prime plus 1.75%. The credit facility is secured by a first floating charge demand debenture in the amount $10,000,000 and a general security agreement over all assets. As at September 30, 2010, there were no amounts owing under the facility. Pursuant to the terms of the credit facility, the Company is subject to a financial covenant with respect to working capital with which the Company was in compliance at September 30, 2010.

Selected Quarterly Information

	Three months ended			
	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**
Petroleum and natural gas sales	$ 794,215	$ 892,878	$ 861,347	$ 851,807
Net loss	(2,198,913)	(3,145,674)	(1,744,826)	(575,303)
Net loss per share, basic and diluted	(0.01)	(0.01)	(0.03)	(0.01)

	Three months ended			
	September 30, 2009	**June 30, 2009**	**March 31, 2008**	**December 31, 2008**
Petroleum and natural gas sales	897,873	966,232	533,327	577,378
Net loss	(1,174,449)	(763,731)	(237,108)	(264,827)
Net loss per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.00)	$ (0.00)

Segmented Information

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Petroleum and natural gas revenue				
Canada	**$ 794,215**	$ 897,873	**$ 2,548,440**	$ 2,397,432
Turkey	**-**	-	**-**	-
	794,215	897,873	**2,548,440**	2,397,432
Net loss				
Canada	**(1,965,885)**	(1,174,449)	**(6,856,385)**	(2,175,288)
Turkey	**(233,028)**	-	**(233,028)**	-
	(2,198,913)	(1,174,449)	**(7,089,413)**	(2,175,288)
Capital expenditures				
Canada	**546,530**	280,178	**1,439,124**	3,072,557
Turkey	**655,326**	-	**655,326**	-
	$ 1,201,856	$ 280,178	**2,094,450**	3,072,557

	September 30, 2010	December 31, 2009
Total assets		
Canada	**37,631,632**	12,342,266
Turkey	**1,542,990**	-
	$ 39,174,622	$ 12,342,366

Total assets in Turkey are comprised of $655,326 in expenditures on property, plant and equipment, and $887,664 of prepaid expenses and cash calls relating to the seismic program currently underway.

Commitments

Farm-in agreement in Turkey

On September 1, 2010, the Company entered into a farm-in agreement with two affiliated Turkish companies. The farm-in agreement allows Valeura to earn varying working interests in a production lease and two groups of exploration licenses in southeast Turkey. The agreement stipulates a phase one minimum earning program of $8,800,000 USD and a phase two program of the same amount to increase earning expenditures up to a maximum of $17,600,000 USD. The working interest earned in the production lease and each group of licenses is based on a sliding scale (between the minimum and maximum earning expenditures) to be determined based on final capital expenditures incurred. No interests are earned unless the phase one earning program is completed. The additional phase two program of $8,800,000 USD is discretionary under the farm-in agreement, however, management has determined the phase two expenditures are likely to be incurred.

If any phase two expenditures are incurred, an additional success fee of 1.5% is due and payable, in accordance with an executed consulting services agreement, on the total phase two expenditures incurred, up to a maximum of 1.5% of $8,800,000 USD. The success fee will be paid in Valeura shares and is calculated by dividing the success fee by the volume weighted average trading price of Valeura for the five days prior to the date the contingent payment is determined to be owing.

The Company has until December 31, 2011 to incur expenditures and earn interests in the production lease and exploration licenses. The earning program entails: evaluating an existing depleted heavy oil field for further reservoir development and production; recompleting two indicated oil discovery wells; drilling development wells; shooting seismic; and, drilling exploration wells on previously unexplored lands.

Asset retirement obligations

As at September 30, 2010, the undiscounted, escalated asset retirement obligations associated with the Company's existing properties was estimated to be $741,275, with approximately $420,000 estimated to be payable within the next five years. These obligations have been recorded using a discount rate of 8% and an inflation rate of 2%. At September 30, 2010 the carrying amount of the Company's asset retirement obligation was $492,760 (December 31, 2009 - $186,500).

Related Party Transactions

(a) During the three and nine months ended September 30, 2010, the Company incurred legal fees of $189,102 and $978,603, respectively (2009 - $15,000 and $46,032) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three and nine months ended September 30, 2010, the Company incurred $700 and $68,871, respectively (2009 - $44,988 and $144,086) in consulting fees and expenses from a corporation whose principal shareholder is a director of the Company.

The amounts charged were the exchange amounts being the amounts agreed to by the parties.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at September 30, 2010 and there are no arrangements outstanding at the date of this MD&A other than the credit facilities in favour of the bank which are secured through the existing $10,000,000 floating charge debenture.

Financial Instruments

Financial instruments of the Company include accounts receivable, accounts payable and accrued liabilities and the credit facility. The carrying values of the financial instruments approximate their fair values due to their relatively short periods to maturity. Borrowings under the bank credit facilities are market rate based.

Business Risks and Uncertainties

There are a number of risk factors that the Company faces as participants in the Canadian and international oil and gas industry. Certain key risk factors are discussed below:

Volatility of commodity prices

Prices for oil and natural gas fluctuate in response to changes in the supply of and demand for petroleum and natural gas, market uncertainty and a variety of additional factors that are largely beyond the Company's control. Oil prices are determined by international supply and demand. Factors which affect oil prices include the actions of the Organization of Petroleum Exporting Countries ("OPEC"), world economic conditions, government regulation, political stability throughout the world, the availability of alternative fuel sources and weather conditions. Natural gas prices in Canada and internationally are affected by supply and demand, weather conditions and by prices of alternative sources of energy.

World oil and gas prices are quoted in United States dollars and the price received by the Company is affected by the Canadian/US dollar exchange rate, which will fluctuate over time. Material increases in the value of the Canadian dollar may negatively impact production revenues. Such increases may also negatively impact the future value of reserves as determined by independent evaluators. In recent years, the Canadian dollar has increased materially in value against the United States dollar.

The impact on the oil and gas industry, in general, from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increases in cost during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline. This volatility causes significant variation in net production revenue for the Company from period to period. In an environment of low prices, certain wells or other projects may become uneconomic and the Company may elect not to produce from certain wells, leading to a reduction in development opportunities and the volume and value of reserves. The Company continually monitors the movement of commodity prices and will apply appropriate financial risk management instruments if it is believed that these are warranted to maintain a given revenue profile. The Company has no such instruments in place at this time.

Volatile oil and gas prices make it difficult to estimate the acquisition value of producing properties and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Capital Requirements

The impact on capital markets caused by investor uncertainty in the global economy has a significant impact on the Company's business model. The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. There can be no assurance that debt or equity financing will be available or that cash generated by operations will be sufficient to make these expenditures. If debt or equity financing is available, it may not be on terms acceptable to the Company. Failure to obtain such financing on a timely basis could cause the Company to miss certain acquisition opportunities.

Third Party Credit Risk

The Company must successfully market its oil and natural gas to prospective buyers. The Company may be exposed to third party credit risk through its contractual arrangements with its current or future marketers of its oil and natural gas production. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material impact on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Exploration, Development and Production

The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisition or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but 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 wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, the invasion of water into producing formations, blow-outs, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk.

Uncertainty of Reserve Estimates

The process of estimating oil and gas reserves is complex and involves a significant number of assumptions in evaluating available geological, geophysical, engineering and economic data; therefore, reserves estimates are inherently uncertain. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, many factors and assumptions are incorporated such as expected reservoir characteristics based on geological, geophysical and engineering assessments, future production rates based on historical performance and expected future operating and investment activities, future oil and gas prices and quality differentials, future development and operating costs and assumed effects of regulation by government agencies.

Properties will, over a period of time, actual deliver oil and natural gas in quantities different than originally estimated due to changes in reservoir performance. The timing of future capital expenditures is subject to uncertainty. Projected future commodity prices and the operating and capital cost structure are subject to significant management judgment and currently, highly volatile. Actions by Canadian provincial governments and foreign governments and their respective royalty regimes have a significant and unpredictable impact.

Environment, Health and Safety

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 federal, provincial and local laws and regulations. In Canada and other international jurisdictions, 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. 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 of applicable environmental legislation 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 the Company to incur costs to remedy such discharge. There are potential risks to the environment inherent in the business activities of the Company.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Critical Accounting Estimates

In the application of accounting policies, management is often required to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur and additional information is obtained.

The critical accounting estimates that are inherent in the preparation of the Company's financial statements pertain to the accounting for property and equipment, impairment testing of property and equipment, estimates of reserves, asset retirement obligations, stock-based compensation and future income taxes. A comprehensive discussion of the Company's significant accounting policies and critical accounting estimates are contained in Northern Hunter's audited financial statements and MD&A for the three months ended December 31, 2009 and the year ended September 30, 2009.

Changes in Accounting Policies

Effective January 1, 2010, the Company adopted the following CICA Handbook standards:

- "Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of the acquisition. In addition, acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. The adoption of this standard impacts the accounting treatment of business combinations entered into after January 1, 2010. Accordingly, transaction costs relating to the Arrangement that had been deferred at December 31, 2009 were included as an expense in the statement of operations for the nine months ended September 30, 2010. As at September 30, 2010, transaction costs relating to the Arrangement totaled $1,018,592.
- "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has had no material impact on the Company's financial statements.
- "Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard has had no material impact on the Company's financial Statements.

Effective July 1, 2010, the Company adopted the following CICA Handbook standard:

- "Foreign Currency Translation", Section 1651, which establishes standards for the translation of: transactions of a reporting enterprise that are denominated in a foreign currency; and financial statements of a foreign operation for incorporation in the consolidated financial statements of a reporting enterprise.

New Accounting Standards

International Financial Reporting Standards ("IFRS")

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Valeura (previously Northern Hunter for accounting purposes) for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The project to convert to IFRS is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company's plan of adoption to IFRS. The Company's auditors have been and will continue to be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 – "First-time Adoption of IFRS" was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Valeura currently anticipates that it will utilize this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business combinations – IFRS 1 will allow Valeura to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Valeura an exemption on IFRS 2, "Share-based Payments" to equity instruments which vested before Valeura's transition date to IFRS.

Valeura currently intends on using these exemptions.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, Valeura has identified key differences that will impact the financial statements and the current status of those items:

- Exploration and Evaluation ("E&E") assets – on transition to IFRS Valeura will re-classify all E&E assets that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land and that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment at the transition date and when indicators of impairment exist. Valeura is currently in the process of determining its E&E asset balance at January 1, 2010.
- Property, plant and equipment ("PP&E") – this includes oil and gas assets in the development and production (D&P) phases. The Company has allocated the amount recognized under current Canadian GAAP as at January 1, 2010 and can elect to allocate its D&P assets using either reserve volumes or reserve values to a cash generating unit ("CGU"). Valeura anticipates using reserve values to allocate D&P property, plant and equipment.
- Impairment of PP&E assets – under IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which is required under current Canadian GAAP through the full cost ceiling test. Impairment calculations are required to be performed using fair values of the PP&E assets and Valeura anticipates using discounted proved plus probable reserve values for impairment tests of PP&E. Valeura does not anticipate its PP&E assets to be impaired as at January 1, 2010 under IFRS.
- Impairment of goodwill – for goodwill impairment tests under IFRS, goodwill that arises from a business combination should be allocated to the specific CGUs that are expected to benefit from the business combination. The carrying value of the CGU including goodwill is compared to the fair value of the CGU and any excess of the carrying value over the fair value is considered an impairment. The Company is not carrying any goodwill on its opening balance sheet but recorded goodwill associated with the PanWestern acquisition in Q2-2010.
- Depletion expense – on transition to IFRS Valeura has the option to base the depletion calculation using either proved reserves or proved plus probable reserves. Valeura intends to deplete its D&P assets using proved plus probable reserves.
- Share-based payments – the Company has determined the major differences from current Canadian GAAP that have an impact are treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. The Company is currently performing the revised share-based payment expense calculations under IFRS. Valeura does not anticipate the opening balance sheet adjustment to be significant.
- Provisions – the major difference between the current Canadian standard and IFRS appears to be the discount rate used to measure the asset retirement obligation ("ARO"). Under the current Canadian standard a credit-adjusted risk free rate is used, whereby IFRS allows the use of a risk free rate when the expected cash flows are risked. There has been debate within the industry on the discount rate and whether there should be a risk

component to it. Valeura is keeping apprised of this issue through its auditor and information within the industry in regards to which rate methodology is most appropriate. A lower discount rate will increase the ARO liability and on transition to IFRS, that increase will be charged to retained earnings or deficit.

- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, management is still determining the impact of these revised standards on its IFRS transition.

In addition to the accounting policy differences, Valeura's transition to IFRS will impact internal controls over financial reporting, disclosure controls and procedures and information technology ("IT") systems as follows:

Internal controls over financial reporting – as the review and analysis of Valeura's accounting policies is completed, an assessment will be made to determine changes required to internal controls over financial reporting. This will be an ongoing process in 2010 to ensure that changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures – throughout the transition process, Valeura will be assessing stakeholders' information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.

IT Systems – Valeura has assessed the readiness of its accounting software and has and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and is continuing with its due process in regards to information that is disclosed. As such, the Company is currently unable to quantify the full impact on the financial statements of adopting IFRS, however, the Company has disclosed certain expectations above based on information known to date. Due to anticipated changes to IFRS and International Accounting Standards prior to Valeura's adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

Disclosure Controls and Internal Controls over Financial Reporting (ICFR)

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures ("DCP") and internal controls over financial reporting ("ICFR") as at September 30, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer that the design and operation of these disclosure controls and procedures were effective as at September 30, 2010 to provide reasonable assurance that material information relating to the Company including its consolidated subsidiaries, would be made known to them. The Company's disclosure controls and procedures and internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

During the quarter ended September 30, 2010, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has continually had in place systems regarding DCP and ICFR and will continue to monitor such procedures as the Company's business evolves.