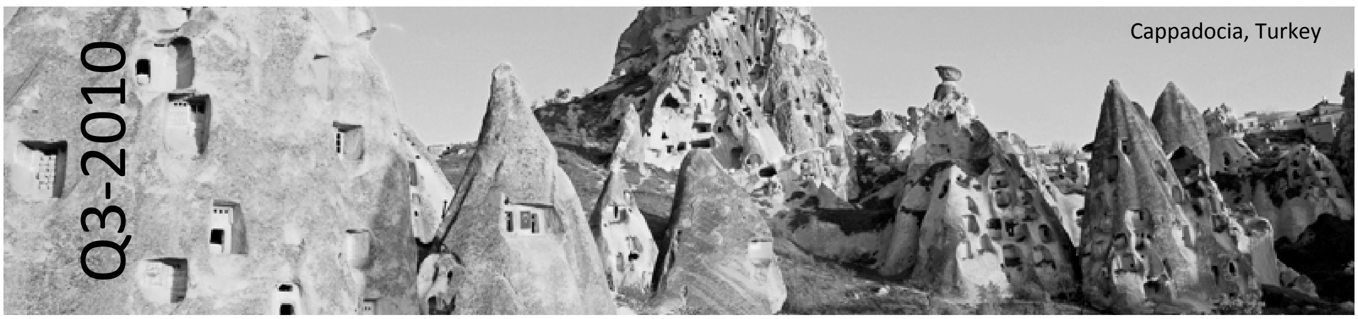

Interim Consolidated Financial Statements

Three and Nine Months ended September 30, 2010 and 2009

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2009.

valeura energy inc.

Interim Consolidated Balance Sheets

(unaudited)	**September 30, 2010**	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	**$ 25,064,416**	$ -
Accounts receivable	**1,335,746**	497,337
Prepaid expenses and deposits	**303,879**	89,938
	26,704,041	587,275
Property, plant and equipment *(Note 4)*	**12,213,268**	11,415,791
Goodwill *(Notes 2 and 3)*	**257,313**	-
Future income taxes	**-**	139,200
Deferred transaction costs *(Notes 2 and 3)*	**-**	200,000
	$ 39,174,622	$ 12,342,266
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 1,164,274**	$ 2,078,396
Credit facilities *(Note 5)*	**-**	3,759,592
	1,164,274	5,837,988
Asset retirement obligations *(Note 6)*	**492,760**	186,500
	1,657,034	6,024,488
Shareholders' Equity		
Share capital *(Note 7)*	**46,554,120**	10,795,576
Contributed surplus *(Note 8)*	**2,664,991**	134,312
Deficit	**(11,701,523)**	(4,612,110)
	37,517,588	6,317,778
	$ 39,174,622	$ 12,342,266

See accompanying notes to the interim consolidated financial statements

See subsequent event (Note 5)

valeura energy inc.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Three and Nine Months ended September 30, 2010 and 2009

	Three months ended		Nine months ended	
(unaudited)	**September 30, 2010**	September 30, 2009	**September 30, 2010**	September 30, 2009
Revenue				
Petroleum and natural gas sales	**$ 794,215**	$ 897,873	**$ 2,548,440**	$ 2,397,432
Royalties	**(75,987)**	(63,748)	**(268,687)**	(196,326)
Other Income	**45,780**	-	**73,470**	-
	764,008	834,125	**2,353,223**	2,201,106
Expenses				
Production	**451,060**	590,221	**1,303,725**	1,441,544
Transportation	**22,703**	21,925	**68,624**	57,367
General and administrative	**1,045,180**	361,984	**2,112,411**	763,927
Transaction costs *(Notes 1, 2 and 3)*	**(2,416)**	-	**1,018,592**	-
Interest	**-**	36,772	**51,243**	72,542
Foreign exchange loss	**25,533**	-	**25,533**	-
Stock-based compensation *(Note 7(f))*	**587,112**	138	**2,439,614**	2,423
Depletion, depreciation and accretion	**833,749**	998,416	**2,422,894**	2,225,254
	2,962,921	2,009,456	**9,442,636**	4,563,057
Loss for the period before income taxes	**(2,198,913)**	(1,175,331)	**(7,089,413)**	(2,361,951)
Future income tax recovery	**-**	882	-	186,663
Net loss and comprehensive loss for the period	**(2,198,913)**	(1,174,449)	**(7,089,413)**	(2,175,288)
Deficit, beginning of period	**(9,502,610)**	(2,862,358)	**(4,612,110)**	(1,861,519)
Deficit, end of period	**(11,701,523)**	(4,036,807)	**(11,701,523)**	(4,036,807)
Loss per share, basic and diluted *(Note 7(c))*	**$ (0.01)**	$ (0.02)	**$ (0.05)**	$ (0.03)

See accompanying notes to the interim consolidated financial statements

valeura energy inc.

Interim Consolidated Statements of Cash Flows
For the Three and Nine Months ended September 30, 2010 and 2009

	Three months ended		Nine months ended	
(unaudited)	**September 30, 2010**	September 30, 2009	**September 30, 2010**	September 30, 2009
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	**$ (2,198,913)**	$ (1,174,449)	**$ (7,089,413)**	$ (2,175,288)
Items not involving cash:				
Depletion, depreciation and accretion	**833,749**	998,416	**2,422,894**	2,225,254
Stock-based compensation	**587,112**	138	**2,439,614**	2,423
Deferred transaction costs	**-**	-	**200,000**	-
Shares issued for service	**98,560**	-	**162,970**	-
Unrealized foreign exchange loss	**25,533**	-	**25,533**	-
Future income tax (recovery)	**-**	(882)	**-**	(186,663)
Asset retirement costs incurred	**(15,864)**	-	**(15,864)**	-
	(669,823)	(176,777)	**(1,854,266)**	(134,274)
Change in non-cash operating working capital *(Note 9)*	**(746,656)**	117,193	**(883,256)**	59,255
	(1,416,479)	(59,584)	**(2,737,522)**	(75,019)
Financing activities:				
Issuance of shares, net of share issue costs	**-**	-	**29,272,973**	2,740
Net change in credit facility	**-**	1,327,437	**(3,759,592)**	3,518,292
Change in non-cash financing working capital *(Note 9)*	**-**	-	**139,834**	(43,084)
	-	1,327,437	**25,653,215**	3,477,948
Investing activities:				
Cash received on acquisition *(Note 3)*	**-**	-	**6,043,902**	-
Property and equipment expenditures	**(1,201,856)**	(280,178)	**(2,094,450)**	(3,072,557)
Change in non-cash investing working capital *(Note 9)*	**(864,771)**	(987,675)	**(1,800,729)**	(330,372)
	(2,066,627)	(1,267,853)	**2,148,723**	(3,402,929)
Net change in cash and cash equivalents	**(3,483,106)**	-	**25,064,416**	-
Cash and cash equivalents, beginning of period	**28,547,522**	-	**-**	-
Cash and cash equivalents, end of period	**$ 25,064,416**	$ -	**$ 25,064,416**	$ -

See accompanying notes to the interim consolidated financial statements

1. Basis of Presentation and Description of Business

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, 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, 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. 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 any equity financings. As a result, the Arrangement is accounted for as a purchase of PanWestern by Northern Hunter (reverse take-over) using the purchase method based on the fair values of assets and liabilities of PanWestern (see Note 3 below). 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. 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 as approved at PanWestern's annual and special meeting of shareholders on June 29, 2010.

These unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2010 and 2009 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"). In the opinion of management, these interim consolidated financial statements contain all adjustments of a normal and recurring nature to present fairly the Company's financial position as at September 30, 2010 and the results of its operations and cash flows for the three and nine months ended September 30, 2010. These statements reflect the same accounting policies as the most recently audited annual financial statements of Northern Hunter, except as described in Note 2 below. The disclosures provided below 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, which was adopted on March 1, 2010.

2. 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 Plan of Arrangement between Northern Hunter and PanWestern 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.
- "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 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; and financial statements of a foreign operation for incorporation inn the consolidated financial statements of a reporting enterprise.

The above Handbook sections are converged with International Financial Reporting Standards ("IFRS"). The Company will be required to report its results in accordance with IFRS beginning in fiscal 2011. The Company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on Company's reported financial position and results of operations.

The Company must record goodwill relating to a corporate acquisition when the total purchase price exceeds the fair value for accounting purposes of net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end or as events occur that could result in impairment. Impairment is recognized based on fair value of the reporting entity compared to the carrying value of the reporting entity. If the fair value of the consolidated Company is less than the carrying value, impairment is measured by allocating the fair value of the consolidated Company to the identifiable assets and liabilities as if the Company had been acquired in a business combination for a purchase price equal to its fair value. The excess of the fair value of the consolidated Company over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the carrying value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to net income in the year in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

3. Corporate Acquisition

On April 9, 2010, PanWestern closed the Plan of Arrangement with Northern Hunter to acquire all the issued and outstanding shares of Northern Hunter. The purchase price paid by PanWestern for all of Northern Hunter's shares was a total of 67,285,829 common shares of PanWestern. Transaction costs of $1,018,592 have been expensed for the nine months ended September 30, 2010. As the shareholders of Northern Hunter acquired greater than 50 percent of the shares in the merged entity, the acquisition has been accounted for as a reverse take-over as follows:

Consideration

Common shares issued *(Note 7)*	$	6,325,960
Fair value of PanWestern Old Options and Old Warrants acquired		216,458
	$	6,542,418
Purchase Price Allocation		
Cash	$	6,043,902
Non-cash working capital		(552,146)
Property, plant and equipment		1,083,390
Asset retirement obligations		(290,041)
Goodwill		257,313
	$	6,542,418

The following amounts for PanWestern are Included in the consolidated statements of operations, comprehensive loss and deficit since the acquisition date of April 9, 2010:

Petroleum and natural gas sales	$	282,829
Royalties		(28,498)
Production expenses		(138,882)
Transportation expenses		(756)
	$	114,693

If PanWestern had been acquired on January 1, 2010, the consolidated petroleum and natural gas sales and net loss figures for Valeura for the nine months ended September 30, 2010 would have been as follows:

Nine months ended September 30, 2010		As Stated		PanWestern Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	2,548,440	$	215,273	$	2,763,713
Net loss	$	(7,089,413)	$	(1,365,248)	$	(8,454,661)

4. Property, Plant and Equipment

						September 30, 2010
		Cost		**Accumulated Depletion and Depreciation**		**Net Book Value**
Petroleum and natural gas properties						
Canada	**$**	**20,627,419**	**$**	**9,155,500**	**$**	**11,471,919**
Turkey		**655,326**		**-**		**655,326**
Office equipment		**174,743**		**88,720**		**86,023**
	$	**21,457,488**	**$**	**9,244,220**	**$**	**12,213,268**

						December 31, 2009
		Cost		Accumulated Depletion and Depreciation		Net Book Value
Petroleum and natural gas properties	$	18,160,841	$	6,765,800	$	11,395,041
Office equipment		92,070		71,320		20,750
	$	18,252,911	$	6,837,120	$	11,415,791

As at September 30, 2010 petroleum and natural gas properties include $986,640 (December 31, 2009 – $419,186) of costs related to undeveloped land and unproved properties that is not subject to depletion. Future capital costs of $482,000 (December 31, 2009 – $685,000) have been included in the depletion calculation and salvage values of $78,541 (December 31, 2009 – $70,880) have been excluded from the depreciation calculation.

During the three and nine months ended September 30, 2010, the Company capitalized $17,255 and $66,002, respectively (three and nine months ended September 30, 2009 – $134,064 and $402,188 respectively), of general and administrative costs on petroleum and natural gas properties and $10,448 (three and nine months ended September 30, 2009 – $3,039 and $11,292) of stock-based compensation.

Credit Facilities

On September 30, 2010, the Company's credit facilities with a Canadian chartered bank consisted of a $3,000,000 revolving operating demand loan with an interest rate of bank prime plus 1.5% and a $1,000,000 development demand loan with an interest rate of bank prime plus 1.75%. Effective November 16, 2010, the revolving operating demand loan was reduced to $2,650,000. The credit facilities are secured by a fixed and floating charge debenture in the amount of $10,000,000 and a general security agreement over all the assets of Valeura and its subsidiaries. As at September 30, 2010 the Company has not drawn an amount on either the revolving operating or development demand loans and is in compliance with all covenants. The next scheduled review of credit facilities is January 31, 2011.

5. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. As at September 30, 2010, no funds have been set aside to settle these obligations.

The following table presents the reconciliation of the carrying amount of the obligations associated with the retirement of the Company's property and equipment:

	September 30, 2010	December 31, 2009
Balance, beginning of period	**$ 186,500**	$ 196,853
Acquired on acquisition (Note 3)	**290,041**	-
Liabilities incurred, net of dispositions	**10,625**	-
Accretion expense	**15,794**	2,900
Liabilities settled	**(15,864)**	400
Revisions to estimates	**5,664**	(13,653)
Balance, end of period	**$ 492,760**	$ 186,500

The following significant assumptions were used to estimate the asset retirement obligations:

	September 30, 2010	December 31, 2009
Undiscounted cash flows, escalated at 2%	**$ 741,275**	$ 360.700
Credit adjusted risk free rate	**8%**	8%
Inflation rate	**2%**	2%
Timing of cash flows	**1-13 years**	1-13 years

6. Share Capital

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

(b) Issued

Common shares	Number of Shares	Amount
Balance, December 31, 2008	13,405,406	$ 10,270,335
Private placement of flow-through shares *(Note 7(b)(i))*	585,000	497,250
Private placement for cash *(Note 7(b)(i))*	40,000	30,000
Share issue costs	-	(2,009)
Balance, December 31, 2009	14,030,406	$ 10,795,576

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

	Number of Shares	Amount
Conversion of Northern Hunter to PanWestern	67,285,829	$ 11,616,177
Issued on acquisition of Northern Hunter *(Note 3)*	49,941,792	6,325,960
Issued pursuant to private placement *(Note 7(b)ii)*	30,000,000	6,000,000
Issued pursuant to private placement *(Note 7(b)iii)*	51,100,000	24,017,000
Issued for services received *(Note 7(b)iv)*	349,504	98,560
Share issuance costs	-	(1,503,577)
Balance, September 30, 2010	198,677,125	$ 46,554,120

(i) During October to November 2009, Northern Hunter issued 585,000 and 40,000 flow-through shares for gross proceeds of $497,250 and $30,000 respectively. The expenditures were renounced to investors in February 2010 with an effective date of December 31, 2009. As at December 31, 2009, Northern Hunter had incurred all of the qualifying flow-through expenditures.

(ii) As a condition of the completion of the Arrangement, PanWestern completed a private placement of 30,000,000 common shares of PanWestern to the current directors, officers, employees and certain consultants of PanWestern and certain other accredited investors at a price of $0.20 per share. The private placement was completed on April 9, 2010 for proceeds of $6,000,000. The common shares issued pursuant to the private placement are subject to certain escrow conditions which regulate the release of such common shares.

(iii) On April 16, 2010, PanWestern closed a private placement financing of 51,100,000 common shares at a price of $0.47 per share for aggregate proceeds of $22,513,423 (net of share issuance costs of $1,503,577).

(iv) On September 8, 2010, Valeura issued 349,504 common shares at a deemed value of $0.282 per share to fully satisfy the success fee payable upon closing of the Turkish joint venture agreement (see Note 14).

(c) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months and nine months ended September 30, 2010 are 198,411,198 and 144,576,681 respectively (three and nine months ended September 30, 2009 – 67,285,829). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

(d) Performance warrants

As at March 31, 2010, there were 1,955,000 Northern Hunter Old Warrants (issued in 2006) entitling the holders thereof to acquire 1,955,000 common shares and 6,215,000 Northern Hunter New Warrants (issued on January 8, 2010) entitling the holders thereof to acquire 6,215,000 common shares issued and outstanding.

On closing of the Arrangement on April 9, 2010 (Note 3), all of the Northern Hunter Old Warrants were cancelled for no additional consideration.

Each Northern Hunter New Warrant was exercisable for one common share at a price of $0.90 and the Northern Hunter New Warrants were to expire on January 8, 2015. On closing of the Arrangement on April 9, 2010, the Northern Hunter New Warrants were cancelled and each holder received 4.5 PanWestern New Warrants for each Northern Hunter New Warrant held (total of 27,967,500 PanWestern New Warrants issued) at an exercise price of $0.20 per share and the same expiry date.

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.

The following table summarizes information about all performance warrants outstanding at September 30, 2010:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.20	27,967,500	4.5	-

(e) Stock options

Outstanding stock options to acquire shares of the Company are as follows:

	September 30, 2010		September 30, 2009	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Northern Hunter Old Options Outstanding at Beginning of Period	**809,000**	**$ 0.94**	809,000	$ 0.94
Northern Hunter New Options Issued	**2,130,000**	**0.90**	-	-
Northern Hunter Old Options Exercised	**(809,000)**	**(0.94)**	-	-
	2,130,000	**0.90**	809,000	0.94
Conversion of Northern Hunter New Options to PanWestern New Options	**9,585,000**	**0.20**	-	-
PanWestern Old Options assumed on April 9, 2010	**3,295,000**	**0.78**	-	-
PanWestern Old Options expired	**(3,295,000)**	**(0.78)**	-	-
Options granted	**650,000**	**0.34**	-	-
Outstanding at September 30, 2010 and 2009	**10,235,000**	**0.21**	-	-
Exercisable at September 30, 2010 and 2009	**-**	**$ -**	737,333	$ 0.96

The following table summarizes information about all the stock options outstanding at September 30, 2010:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.20	9,585,000	6.3	-
$0.34	650,000	7.0	-
	10,235,000	6.3	-

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 Northern Hunter New 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 (Notes 1 and 3), the Northern Hunter New Options were cancelled and each holder received 4.5 PanWestern New Options for each Northern Hunter New Option held (total of 9,585,000 new stock options) at an exercise price of $0.20 per common share with the same seven year term.

Concurrently with the closing of the Arrangement (Note 1), 809,000 Northern Hunter Old Options outstanding as at March 31, 2010 were exercised. As a result, 809,000 common shares were issued for total cash proceeds of $759,550.

Pursuant to the acquisition, 3,295,000 fully vested PanWestern Old Options were assumed with exercise prices ranging from $0.52 to $0.80 per common share. These options expired during the third quarter of 2010.

(f) Stock-based compensation

The fair value of the stock options issued during the nine months ended September 30, 2010 was estimated to be $0.17 to $0.33 on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of stock options granted ($/share)	0.17 - 0.33
Risk-free interest rate (%)	2.33 - 3.01
Expected life (years)	7.0
Expected volatility (%)	110
Expected dividend yield (%)	-

The fair value of the performance warrants issued during the nine months ended September 30, 2010 was estimated to be $0.16 on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of performance warrants granted ($/share)	0.16
Risk-free interest rate (%)	2.67
Expected life (years)	5.0
Expected volatility (%)	110
Expected dividend yield (%)	-

Stock based compensation charges of $2,450,062 ($2,439,614 expensed and $10,448 capitalized) for the nine months ended September 30, 2010 includes a charge of $932,866 to account for 3,295,000 PanWestern Old Options and 21,239,280 PanWestern Old Warrants that were acquired as a result of the Arrangement. Fair values attributed to the PanWestern Old Options and Old Warrants are $0.17 per share and $0.15 per share, respectively. This additional stock compensation expense is the result of a one-time revaluation of the PanWestern Old Options and Old Warrants.

7. Contributed Surplus

The following table reconciles the Company's contributed surplus:

	September 30, 2010	December 31, 2009
Balance, beginning of period	**$ 134,312**	$ 132,016
Stock-based compensation expensed	**2,439,614**	2,296
Stock-based compensation capitalized	**10,448**	-
PanWestern Old Options and Old Warrants acquired on acquisition *(Note 3)*	**216,458**	-
Exercise of options	**(135,841)**	-
Balance, end of period	**$ 2,664,991**	$ 134,312

8. Change in Non-Cash Working Capital

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	**September 30, 2010**	September 30, 2009
Change in non-cash working capital:				
Accounts receivable	**$ (508,927)**	$ 366,299	**$ (414,818)**	$ (49,212)
Prepaid expenses and deposits	**(139,837)**	8,593	**(88,725)**	8,551
Accounts payable and accrued liabilities	**(962,663)**	(1,245,374)	**(2,040,608)**	(273,540)
	(1,611,427)	(870,482)	**(2,544,151)**	(314,201)
The change in non-cash working capital has been allocated to the following activities:				
Operating	**(746,656)**	117,193	**(883,256)**	59,255
Financing	**-**	-	**139,834**	(43,084)
Investing	**(864,771)**	(987,675)	**(1,800,729)**	(330,372)
	$ (1,611,427)	$ (870,482)	**$ (2,544,151)**	$ (314,201)
Supplementary cash flow information:				
Interest paid	**$ -**	$ 36,772	**$ 51,243**	$ 72,542

9. Financial Instruments

The Company's financial instruments recognized in the interim consolidated balance sheets consist of cash, accounts receivable, demand credit facilities, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to their short terms to maturity and the floating interest rate on the Company's debt.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the nine months ended September 30, 2010.

10. 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	$ 12,342,266

11. Capital Management

The Company's capital structure includes working capital and shareholders' equity. Total capital resources available include working capital plus the unused portion of the Company's credit line.

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which 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 subject to any externally imposed capital requirements other than covenants on its credit facility with its lender to maintain an adjusted working capital ratio of not less than 1 to 1 at all times. At September 30, 2010, the Company's adjusted working capital ratio was 25.5 to 1.

12. 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.

13. Commitments

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.