Valeura Energy Inc.

Interim Consolidated Financial Statements

Three and Six Months Ended June 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 six months ended June 30, 2009.

Valeura Energy Inc.
Interim Consolidated Balance Sheets

(unaudited)	**June 30, 2010 $**	December 31, 2009 $
Assets		
Current assets		
Cash and cash equivalents	**28,547,522**	-
Accounts receivable	**826,819**	497,337
Prepaid expenses and deposits	**164,042**	89,938
	29,538,383	587,275
Property, plant and equipment *(Note 4)*	**11,812,175**	11,415,791
Goodwill *(Notes 2 and 3)*	**257,313**	-
Future income taxes	**-**	139,200
Deferred transaction costs *(Notes 2 and 3)*	**-**	200,000
	41,607,871	12,342,266
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**2,101,404**	2,078,396
Credit facility *(Note 5)*	**-**	3,759,592
	2,101,404	5,837,988
Asset retirement obligations *(Note 6)*	**486,086**	186,500
	2,587,490	6,024,488
Shareholders' Equity		
Share capital *(Note 7)*	**46,455,560**	10,795,576
Contributed surplus *(Note 8)*	**2,067,431**	134,312
Deficit	**(9,502,610)**	(4,612,110)
	39,020,381	6,317,778
	41,607,871	12,342,266

See accompanying notes to the interim consolidated financial statements

Valeura Energy Inc.
Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Three and Six Months Ended June 30, 2010 and 2009

	Three months ended		Six months ended	
(unaudited)	**June 30, 2010 $**	June 30, 2009 $	**June 30, 2010 $**	June 30, 2009 $
Revenue				
Oil and natural gas sales	**892,878**	966,232	**1,754,225**	1,499,559
Royalties	**(119,195)**	(107,960)	**(192,700)**	(132,578)
Other Income	**27,690**	-	**27,690**	-
	801,373	858,272	**1,589,215**	1,366,981
Expenses				
Production	**462,700**	606,140	**852,665**	851,323
Transportation	**23,985**	28,616	**45,921**	35,442
General and administrative	**794,146**	215,751	**1,067,231**	401,943
Transaction costs *(Notes 1, 2 and 3)*	**434,057**	-	**1,021,008**	-
Interest	**7,332**	22,526	**51,243**	35,770
Stock-based compensation *(Note 7(f))*	**1,370,182**	409	**1,852,502**	2,285
Depletion, depreciation and accretion	**854,645**	842,742	**1,589,145**	1,226,838
	3,947,047	1,716,184	**6,479,715**	2,553,601
Loss for the period before income taxes	**(3,145,674)**	(857,912)	**(4,890,500)**	(1,186,620)
Future income tax recovery	-	94,181	-	185,781
Net loss and comprehensive loss for the period	**(3,145,674)**	(763,731)	**(4,890,500)**	(1,000,839)
Deficit, beginning of period	**(6,356,936)**	(2,098,627)	**(4,612,110)**	(1,861,519)
Deficit, end of period	**(9,502,610)**	(2,862,358)	**(9,502,610)**	(2,862,358)
Loss per share, basic and diluted *(Note 7(c))*	**(0.02)**	(0.01)	**(0.04)**	(0.01)

See accompanying notes to the interim consolidated financial statements

Valeura Energy Inc.
Interim Consolidated Statements of Cash Flows
For the Three and Six Months Ended June 30, 2010 and 2009

	Three Months Ended		Six Months Ended	
(unaudited)	**June 30, 2010 $**	June 30, 2009 $	**June 30, 2010 $**	June 30, 2009 $
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	**(3,145,674)**	(763,731)	**(4,890,500)**	(1,000,839)
Items not involving cash:				
Depletion, depreciation and accretion	**854,645**	842,742	**1,589,145**	1,226,838
Stock-based compensation	**1,370,182**	409	**1,852,502**	2,285
Deferred transaction costs	**-**	-	**200,000**	-
Shares issued for service	**64,410**	-	**64,410**	-
Future income tax (recovery)	**-**	(94,181)	**-**	(185,781)
	(856,437)	(14,761)	**(1,184,443)**	42,503
Change in non-cash operating working capital *(Note 9)*	**(415,176)**	31,709	**(136,600)**	(57,938)
	(1,271,613)	16,948	**(1,321,043)**	(15,435)
Financing activities:				
Issuance of shares, net of share issue costs	**29,272,973**	-	**29,272,973**	2,740
Net change in credit facility	**(4,730,345)**	1,439,328	**(3,759,592)**	2,190,855
Change in non-cash financing working capital *(Note 9)*	**139,834**	-	**139,834**	(43,084)
	24,682,462	1,439,328	**25,653,215**	2,150,511
Investing activities:				
Cash received on acquisition *(Note 3)*	**6,043,902**	-	**6,043,902**	-
Property and equipment expenditures	**(478,906)**	(1,186,764)	**(892,594)**	(2,792,379)
Change in non-cash investing working capital *(Note 9)*	**(428,323)**	(269,512)	**(935,958)**	657,303
	5,136,673	(1,456,276)	**4,215,350**	(2,135,076)
Net change in cash	**28,547,522**	-	**28,547,522**	-
Cash and cash equivalents, beginning of period	**-**	-	**-**	-
Cash and cash equivalents, end of period	**28,547,522**	-	**28,547,522**	-

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 exploitation, development and production of petroleum and natural gas in Western Canada. The Company is pursuing a new strategy to expand internationally to selected countries in Latin America, the Middle East and North Africa region and the Mediterranean Basin. 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. Because the shareholders of Northern Hunter acquired more than 50 percent 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 (see Note 3 below). 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 general meeting of shareholders on June 29, 2010.

These unaudited interim consolidated financial statements for the three and six month periods ended June 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 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.

The comparative amounts for 2009 in the consolidated financial statements reflect the stand alone accounts of Northern Hunter.

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 six months ended June 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.

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 $434,057 and $1,021,008 have been expensed for the three and six months ended June 30, 2010, respectively. 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 & equipment	1,083,390
Asset retirement obligation	(290,041)
Goodwill	257,313
	6,542,418

The above amounts are estimates based on information available to the Company at the time of preparation of these consolidated financial statements. Accordingly, these amounts are subject to change as cost estimates and values are finalized.

4. Property, Plant and Equipment

	June 30, 2010		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Petroleum and natural gas properties	**20,079,911**	**8,336,000**	**11,743,911**
Office equipment	**148,984**	**80,720**	**68,264**
	20,228,895	**8,416,720**	**11,812,175**

	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 June 30, 2010 petroleum and natural gas properties include $349,158 (December 31, 2009 – $419,186) of costs related to undeveloped land that is not subject to depletion. Future capital costs of $553,000 (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 six months ended June 30, 2010, the Company capitalized $29,236 and $48,747, respectively (three and six months ended June 30, 2009 – $134,062 and $268,124 respectively), of general and administrative costs on petroleum and natural gas properties and $nil (three and six months ended June 30, 2009 – $3,040 and $8,253) of stock-based compensation and related future income taxes.

5. Credit Facilities

Following completion of the Plan of Arrangement, the Company entered into new credit facilities with a Canadian chartered bank which are comprised of a $3,000,000 revolving operating demand loan and a $1,000,000 development demand loan. Northern Hunter has guaranteed the Company's new credit facilities and 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 June 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 scheduled for August 31, 2010.

6. 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 June 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:

	June 30, 2010 **$**	December 31, 2009 $
Balance, beginning of period	**186,500**	196,853
Acquired on acquisition	**290,041**	-
Accretion expense	**9,545**	2,900
Liabilities incurred, net of dispositions	**-**	400
Revisions to estimates	**-**	(13,653)
Balance, end of period	**486,086**	186,500

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

	June 30, 2010 **$**	December 31, 2009 $
Undiscounted cash flows, escalated at 2%	**729,800**	360,700
Credit adjusted risk free rate	**8%**	8%
Inflation rate	**2%**	2%
Timing of cash flows	**1-13 years**	1-13 years

7. 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
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
Share issuance costs	-	(1,503,577)
Balance, June 30, 2010	198,327,621	46,455,560

(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 gross (& net) 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 special warrants at a price of $0.47 per special warrant for aggregate proceeds of $22,513,423 (net of share issuance costs of $1,503,577).

(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 six months ended June 30, 2010 was 166,592,679 and 117,213,281 respectively (three and six months ended June 30, 2009 – 67,285,829 and 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 1), 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: (i) 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 (ii) at any time during the term of the PanWestern New Warrants, the current 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: (i) 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 (ii) at any time during the term of the PanWestern New Warrants, the current 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 (ii) at any time during the term of the PanWestern New Warrants, the current 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 following table summarizes information about all performance warrants outstanding at June 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:

	June 30, 2010		June 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**	-	-
Outstanding at June 30, 2010	**12,880,000**	**0.35**	-	-
Exercisable at June 30, 2010	**3,295,000**	**0.78**	729,333	0.96

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

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.20	9,585,000	6.5	-
$0.52 - $0.62	320,000	0.2	320,000
$0.80	2,975,000	0.2	2,975,000
	12,880,000	4.9	3,295,000

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.

(f) Stock-based compensation (non-cash)

The fair value of the stock options issued during the six months ended June 30, 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of stock options granted ($/share)	0.78
Risk-free interest rate (%)	3.01
Expected life (years)	7.0
Expected volatility (%)	110
Expected dividend yield (%)	-

The fair value of the performance warrants issued during the six months ended June 30, 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Fair value of performance warrants granted ($/share)	0.72
Risk-free interest rate (%)	2.67
Expected life (years)	5.0
Expected volatility (%)	110
Expected dividend yield (%)	-

Stock based compensation of $1,852,502 for the six months ended June 30, 2010 includes a charge of $877,611 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.

8. Contributed Surplus

The following table reconciles the Company's contributed surplus:

	June 30, 2010 $	December 31, 2009 $
Balance, beginning of period	**134,312**	132,016
Stock-based compensation expensed	**1,852,502**	2,296
PanWestern Old Options and Old Warrants acquired on acquisition *(Note 3)*	**216,458**	-
Exercise of options	**(135,841)**	-
Balance, end of period	**2,067,431**	134,312

9. Change in Non-Cash Working Capital

	Three months ended		Six months ended	
	June 30, 2010 $	June 30, 2009 $	**June 30, 2010 $**	June 30, 2009 $
Change in non-cash working capital:				
Accounts receivable	**166,860**	(328,988)	**94,109**	(415,511)
Prepaid expenses and deposits	**44,395**	25,980	**51,112**	(42)
Accounts payable and accrued liabilities	**(914,920)**	65,205	**(1,077,945)**	971,834
	(703,665)	(237,803)	**(932,724)**	556,281
The change in non-cash working capital has been allocated to the following activities:				
Operating	**(415,176)**	31,709	**(136,600)**	(57,938)
Financing	**139,834**	-	**139,834**	(43,084)
Investing	**(428,323)**	(269,512)	**(935,958)**	657,303
	(703,665)	(237,803)	**(932,724)**	556,281
Supplementary cash flow information:				
Interest paid	**7,332**	22,526	**51,243**	35,770

10. 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 approximate 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 six months ended June 30, 2010.

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 June 30, 2010, the Company's adjusted working capital ratio was 15.5 to 1.

12. Related Party Transactions

(a) During the three and six months ended June 30, 2010, the Company incurred legal fees of \$482,801 and \$789,501, respectively (2009 - \$16,258 and \$31,032) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three and six months ended June 30, 2010, the Company incurred \$44,371 and \$67,971, respectively (2009 - \$65,249 and \$99,098) 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.