valeura energy inc.

Consolidated Financial Statements

Years ended December 31, 2010 and 2009

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MANAGEMENT'S REPORT

The management of Valeura Energy Inc. is responsible for the preparation of all information included in these financial statements and Management's Discussion & Analysis ("MD&A"). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained in the MD&A has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the presentation of financial statements.

KPMG LLP, an independent firm of chartered accountants, was appointed by management to audit the financial statements of the Company and provide an independent professional opinion. Their report is presented with the financial statements below.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of independent directors who are not employees of the Corporation. The Company's Board of Directors has approved the information contained in the financial statements based on the recommendation of the Audit Committee.

(signed) "Jim McFarland"
President and CEO

(signed) "Steve Bjornson"
VP Finance & CFO

March 9, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of Valeura Energy Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Valeura Energy Inc. as at December 31, 2010 and 2009, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 9, 2011

valeura energy inc.

Consolidated Balance Sheets

		December 31, 2010		December 31, 2009
Assets				
Current assets				
Cash and cash equivalents	**$**	**19,460,311**	$	-
Accounts receivable		**2,264,592**		497,337
Prepaid expenses and deposits		**228,763**		89,938
		21,953,666		587,275
Property, plant and equipment *(Note 5)*		**16,547,844**		11,415,791
Goodwill *(Note 4)*		**257,313**		-
Future income taxes *(Note 10)*		**-**		139,200
Deferred transaction costs *(Note 4)*		**-**		200,000
	$	**38,758,823**	$	12,342,266
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**2,256,699**	$	2,078,396
Credit facilities *(Note 6)*		**-**		3,759,592
		2,256,699		5,837,988
Asset retirement obligations *(Note 7)*		**487,914**		186,500
		2,744,613		6,024,488
Shareholders' Equity				
Share capital *(Note 8)*		**46,554,120**		10,795,576
Contributed surplus *(Note 9)*		**3,207,196**		134,312
Deficit		**(13,747,106)**		(4,612,110)
		36,014,210		6,317,778
	$	**38,758,823**	$	12,342,266

See accompanying notes to the consolidated financial statements

See commitments *(Note 16)* and subsequent events *(Note 17)*

valeura energy inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Revenue		
Petroleum and natural gas sales	**$ 3,234,538**	$ 3,249,239
Royalties	**(280,187)**	(268,965)
Other Income	**118,333**	-
	3,072,684	2,980,274
Expenses		
Production	**1,662,365**	1,859,546
Transportation	**81,205**	80,111
General and administrative	**3,215,639**	995,979
Transaction costs *(Notes 1, 3 and 4)*	**1,124,485**	-
Interest	**51,243**	110,920
Foreign exchange loss	**76,522**	-
Stock-based compensation *(Notes 8(f) and 9)*	**2,960,948**	4,719
Depletion, depreciation and accretion	**3,035,273**	3,005,453
	12,207,680	6,056,728
Loss for the year before income taxes	**(9,134,996)**	(3,076,454)
Future income tax recovery *(Note 10)*	-	325,863
Net loss and comprehensive loss for the year	**(9,134,996)**	(2,750,591)
Deficit, beginning of year	**(4,612,110)**	(1,861,519)
Deficit, end of year	**(13,747,106)**	(4,612,110)
Loss per share, basic and diluted *(Note 8(c))*	**$ (0.06)**	$ (0.04)

See accompanying notes to the consolidated financial statements

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Consolidated Statements of Cash Flows
For the Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Cash was provided by (used in):		
Operating activities:		
Net loss for the year	**$ (9,134,996)**	$ (2,750,591)
Items not involving cash:		
Depletion, depreciation and accretion	**3,035,273**	3,005,453
Stock-based compensation	**2,960,948**	4,719
Deferred transaction costs	**200,000**	(200,000)
Shares issued for services	**162,970**	-
Unrealized foreign exchange loss	**76,522**	-
Future income tax (recovery)	**-**	(325,863)
Asset retirement costs incurred	**(33,750)**	-
	(2,733,033)	(266,282)
Change in non-cash operating working capital *(Note 11)*	**(164,609)**	164,652
	(2,897,642)	(101,630)
Financing activities:		
Issuance of shares, net of share issue costs	**29,272,973**	527,981
Net change in credit facility	**(3,759,592)**	2,910,897
Change in non-cash financing working capital *(Note 11)*	**-**	(43,084)
	25,513,381	3,395,794
Investing activities:		
Cash received on acquisition *(Note 4)*	**6,043,902**	-
Property and equipment expenditures	**(7,007,494)**	(3,696,926)
Change in non-cash investing working capital *(Note 11)*	**(2,169,186)**	402,762
	(3,132,778)	(3,294,164)
Foreign exchange on cash held in foreign currencies	**(22,650)**	-
Net change in cash and cash equivalents	**19,460,311**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**$ 19,460,311**	$ -

See accompanying notes to the 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 Turkey and Western Canada. The Company is continuing to pursue a strategy to expand internationally in Turkey and other 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, or a reverse take-over, using the purchase method based on the fair values of assets and liabilities of PanWestern (see Note 4 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 audited consolidated financial statements for the years ended December 31, 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").

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Canadian GAAP and include the accounts of the Company and its subsidiaries, all of which are wholly owned, on a consolidated basis. Intercompany account balances and transactions are eliminated upon consolidation.

The Company currently has no variable interest entities of which it is the primary beneficiary and accordingly the consolidated financial statements do not include the accounts of any such entities.

Petroleum and Natural Gas Operations

The Company uses the full-cost method of accounting for petroleum and natural gas operations and capitalizes all exploration and development costs on a country-by-country basis. These costs include land acquisition, geological and geophysical costs, drilling on producing and non-producing properties, overhead costs related to exploration and development and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a 20% or greater change in the rate of depletion and depreciation.

Amortization of these costs plus future development costs to develop proved reserves is calculated on a country-by-country basis using the unit-of-production method based on estimated proved reserves, before royalties, as determined by independent engineers. The cost of significant unevaluated properties is excluded from the depletion and depreciation base. For the purpose of the depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measurement on the basis of their relative energy content based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Annually, the carrying value of the Company's petroleum and natural gas properties is compared to the sum of the undiscounted cash flows expected to result from the Company's proved reserves on a country-by-country basis (the "ceiling test"). If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amounts of the assets to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment which is charged to earnings.

A significant portion of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

The Company recognizes the estimated liability associated with an asset retirement obligation in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the asset retirement obligation is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted using the unit-of-production method over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and this accretion is charged to earnings in the period. The asset retirement obligation can also increase or decrease due to changes in the estimated timing of cash flows or changes in the original estimated undiscounted costs. Actual costs incurred upon settlement of the asset retirement obligation are charged against the asset retirement obligation to the extent of the liability recorded.

The amounts recorded for depletion and depreciation of property, plant and equipment are based on estimates. The recoverability test associated with the Company's petroleum and natural gas properties is based on the sum of the undiscounted cash flows expected to result from the Company's proved reserves. The asset retirement obligation is based on estimated liabilities related to legal obligations associated with future retirement of property, plant and equipment. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

Cash and Cash Equivalents
Cash and cash equivalents include monies on deposit and guaranteed investments that have an original maturity date of not more than 90 days.

Office Equipment
Office equipment is recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20% to 50% per year.

Goodwill
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 and as events occur that could result in impairment. Impairment is recognized based on the 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.

Revenue Recognition
Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded when title passes to the customer. For Canadian natural gas production, legal title transfer occurs at the intersection of major pipelines (referred to as the "Hub") whereas the majority of Company's Canadian oil production is sold at the well head.

Financial Instruments
Cash and cash equivalents are classified as held for trading and are measured at fair value.

Accounts receivable are classified as loans and receivables and are initially measured at fair value and are then subsequently measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities and are initially recognized at fair value and are subsequently measured at amortized cost.

Foreign Currency Translation

The functional and reporting currency of the Company is the Canadian dollar. The financial position and results of foreign subsidiaries, all of which are considered to be integrated, are translated on the following basis:

- Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- Non-monetary assets, liabilities and related depreciation and depletion expense are translated at historical rates; and
- Sales, other revenues, royalties and all other expenses are translated at an average monthly exchange rate.

Any resulting foreign exchange gains and losses are included in earnings.

Income Taxes

Future income taxes are calculated using the asset and liability method whereby income tax assets and liabilities are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the consolidated financial statements of the Company and their respective tax bases using substantively enacted income tax rates in the respective jurisdictions that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period in which the related legislation is substantively enacted.

Flow-through Shares

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through equity instruments as a reduction of share capital and an increase in future income tax liabilities when the renouncement documents are filed with taxation authorities.

Stock-based Compensation

Stock options and warrants to purchase common shares are granted to directors, officers, employees and selected consultants when and as determined by the Board of Directors. Stock-based compensation expense (non-cash) is recorded in the statement of operations for all stock options and performance warrants granted with a corresponding increase recorded as contributed surplus. Stock-based compensation expense is based on the estimated fair values of the stock options and warrants at the time of the grant as determined using a Black-Scholes pricing model. The expense is recognized on a straight-line basis over the vesting period of the instrument. Upon the exercise of the stock options or performance warrants, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested instruments expire, previously recognized compensation expense associated with such stock options and performance warrants is not reversed.

Per Share Amounts

Net earnings per share are calculated using the weighted-average number of shares outstanding during the period. Diluted net earnings per unit are calculated using the treasury stock method to determine the dilutive effect of options and performance warrants. The treasury stock method assumes that the aggregate of the proceeds received from the exercise of "in the money" Company options and warrants and the deemed proceeds are used to repurchase shares at the average market price during the period.

Adoption of International Financial Reporting Standards

On January 1, 2011, International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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 for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

The transition from Canadian GAAP to IFRS is significant with differences affecting the financial position and results of operations. Valeura will release its first IFRS interim consolidated financial statements in the first quarter of 2011.

3. 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.
- "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 currency; and financial statements of a foreign operation for incorporation in 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.

4. Corporate and Asset Acquisitions

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 year ended December 31, 2010 of which $200,000 was recorded as deferred transaction costs as at December 31, 2009. An additional $105,893 of transaction costs have been expensed relating to asset deals that are expected to close in 2011 (see Note 17). 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 8)*	$	6,325,960
Fair value of PanWestern options and 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	$	443,514
Royalties		(37,983)
Production expenses		(212,820)
Transportation expenses		(917)
	$	191,794

If PanWestern had been acquired on January 1, 2010, the consolidated petroleum and natural gas sales and net loss figures for Valeura for year ended December 31, 2010 would have been as follows:

Year ended December 31, 2010		As Stated		PanWestern Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	3,234,538	$	215,273	$	3,449,811
Net loss	$	(9,134,996)	$	(1,365,248)	$	(10,500,244)

5. Property, Plant and Equipment

						December 31, 2010
		Cost		**Accumulated Depletion and Depreciation**		**Net Book Value**
Petroleum and natural gas properties						
Canada	**$**	**20,783,707**	**$**	**9,747,200**	**$**	**11,036,507**
Turkey		**5,383,334**		**-**		**5,383,334**
Office equipment		**231,623**		**103,620**		**128,003**
	$	**26,398,664**	**$**	**9,850,820**	**$**	**16,547,844**

						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

(a) Canada

As at December 31, 2010 petroleum and natural gas properties include $279,130 (December 31, 2009 – $419,186) of costs related to undeveloped land and unproved properties that are not subject to depletion. Future capital costs of $493,000 (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 year ended December 31, 2010, the Company capitalized $56,472 (2009 – $433,088) of general and administrative costs, and $nil of stock-based compensation (2009 - $11,292) related to petroleum and natural gas properties in Canada.

The Company performed ceiling test at December 31, 2010 and 2009 to assess whether the carrying value of petroleum and natural gas properties and equipment is recoverable. Based on the calculations, the discounted future cash flows from the Company's proved and probable reserves exceeded the carrying value of the Company's petroleum and natural gas properties and equipment at December 31, 2010 and 2009 and therefore, the carrying values are considered recoverable.

The benchmark prices used in the December 31, 2010 calculations, provided by an independent recognized evaluation firm, are as follows:

	Natural Gas AECO Spot ($CDN/mmbtu)	Crude Oil Edmonton Light ($CDN/bbl)	Crude Oil Hardisty Heavy ($CDN/bbl)
2011	4.16	86.22	75.87
2012	4.74	89.29	75.89
2013	5.31	90.92	75.10
2014	5.77	92.96	76.23
2015	6.22	96.19	78.88
2016	6.53	98.62	80.87
2017	6.76	101.39	83.14
2018	6.90	103.92	85.21
2019	7.06	106.68	87.48
2020	7.21	108.84	89.25
Average increase thereafter	2.0%	2.0%	2.0%

(b) Turkey

As at December 31, 2010 petroleum and natural gas properties include $5,383,334 of costs incurred under the Company's joint venture with AME-GYP and are considered unproved properties not subject to depletion. During the year ended December 31, 2010, the Company capitalized $28,096 of general and administrative costs and $31,319 of stock-based compensation related to petroleum and natural gas properties in Turkey. The ultimate recovery of property and equipment costs in Turkey is dependent upon the Company fulfilling its obligation to earn an interest in the AME-GYP licenses and upon the existence and commercial exploitation of petroleum and natural gas reserves. Uncertainties affect the recoverability of these costs as the recovery of the costs outlined above is dependent upon the Company obtaining government approvals, obtaining and maintaining licenses in good standing and achieving commercial production.

6. Credit Facilities

On December 31, 2010, the Company's credit facilities with a Canadian chartered bank consisted of a $2,650,000 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%. 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 December 31, 2010 the Company had 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 the credit facilities is March 31, 2011.

7. 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 December 31, 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:

	December 31, 2010	December 31, 2009
Balance, beginning of year	**$ 186,500**	$ 183,156
Acquired on acquisition *(Note 4)*	**290,041**	-
Liabilities incurred, net of dispositions	**10,625**	27,208
Accretion expense	**21,573**	13,711
Liabilities settled	**(33,750)**	-
Revisions to estimates	**12,925**	(37,575)
Balance, end of year	**$ 487,914**	$ 186,500

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

	December 31, 2010	December 31, 2009
Undiscounted cash flows, escalated at 2%	**$ 741,050**	$ 360,700
Credit adjusted risk free rate	**8%**	8%
Inflation rate	**2%**	2%
Timing of cash flows	**1-12 years**	1-13 years

8. 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 8(b)(i))*	585,000	497,250
Private placement for cash *(Note 8(b)(i))*	40,000	30,000
Share issue costs	-	(2,009)
Balance, December 31, 2009	14,030,406	$ 10,795,576
Tax effect of flow-through shares	-	(139,200)
Issued on exercise of Northern Hunter 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 4)*	49,941,792	6,325,960
Issued pursuant to private placement *(Note 8(b)ii)*	30,000,000	6,000,000
Issued pursuant to private placement *(Note 8(b)iii)*	51,100,000	24,017,000
Issued for services received *(Note 8(b)iv)*	349,504	98,560
Share issuance costs	-	(1,503,577)
Balance, December 31, 2010	198,677,125	$ 46,554,120

(i) During October to November 2009, Northern Hunter issued 585,000 flow-through shares and 40,000 common 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 16).

(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 year ended December 31, 2010 is 158,212,958 (year ended December 31, 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 4), 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 December 31, 2010:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.20	27,967,500	4.0	-

(e) Stock options

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

	December 31, 2010		December 31, 2009	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Northern Hunter options outstanding at beginning of year	**809,000**	**$ 0.94**	809,000	$ 0.94
Northern Hunter options Issued	**2,130,000**	**0.90**	-	-
Northern Hunter options exercised	**(809,000)**	**(0.94)**	-	-
	2,130,000	**0.90**	809,000	0.94
Conversion of Northern Hunter options to PanWestern (now Valeura) options	**9,585,000**	**0.20**	-	-
PanWestern Options assumed on April 9, 2010	**3,295,000**	**0.78**	-	-
PanWestern Options expired	**(3,295,000)**	**(0.78)**	-	-
Options granted	**1,100,000**	**0.35**	-	-
Outstanding at December 31, 2010 and 2009	**10,685,000**	**0.22**	809,000	0.94
Exercisable at December 31, 2010 and 2009	**-**	**$ -**	737,333	$ 0.96

The following table summarizes information about all the stock options outstanding at December 31, 2010:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
$0.20	9,585,000	6.0	-
$0.34	650,000	6.7	-
$0.365	450,000	6.9	
	10,685,000	6.1	-

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 (see Notes 1 and 4), 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 (see Notes 1 and 4), 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 year ended December 31, 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 year ended December 31, 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 $2,992,267 ($2,960,948 expensed and $31,319 capitalized) for the year ended December 31, 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.

9. Contributed Surplus

The following table reconciles the Company's contributed surplus:

	December 31, 2010	December 31, 2009
Balance, beginning of year	**$ 134,312**	$ 132,016
Stock-based compensation expensed	**2,960,948**	2,296
Stock-based compensation capitalized	**31,319**	-
PanWestern Old Options and Old Warrants acquired on acquisition *(Note 4)*	**216,458**	-
Exercise of options	**(135,841)**	-
Balance, end of year	**$ 3,207,196**	$ 134,312

10. Income taxes

The following is a reconciliation of income taxes calculated at the combined Federal and Provincial rates with the future income tax recovery reported in the statements of loss and deficit:

	December 31, 2010	December 31, 2009
Combined federal and provincial income tax rates	**28.00%**	29.00%
Net loss for the year before income taxes	**$ (9,134,996)**	$ (3,076,454)
Expected income tax recovery	**(2,557,799)**	(892,172)
Non-deductible items	**897,517**	8,517
Tax rate changes and other	**225,571**	93,230
Change in valuation allowance	**1,434,711**	464,562
	$ -	$ 325,863

The components of the net future income tax asset are as follows

	December 31, 2010	December 31, 2009
Property and equipment	**$ 748,304**	$ 297,140
Share issuance costs	**476,688**	32,547
Asset retirement obligations	**121,978**	46,625
Non-capital losses and other	**2,074,020**	227,450
Valuation allowance	**(3,420,990)**	(464,562)
	$ -	$ 139,200

The Company has approximately $8.0 million of Canadian non-capital losses that begin to expire in 2011 if they are unutilized.

11. Change in Non-Cash Working Capital

	December 31, 2010	December 31, 2009
Change in non-cash working capital:		
Accounts receivable	**$ (1,321,015)**	$ (225,874)
Prepaid expenses and deposits	**(13,609)**	(4,753)
Accounts payable and accrued liabilities	**(999,171)**	754,957
	(2,333,795)	524,330
The change in non-cash working capital has been allocated to the following activities:		
Operating	**(164,609)**	164,652
Financing	**-**	(43,084)
Investing	**(2,169,186)**	402,762
	$ (2,333,795)	$ 524,330
Supplementary cash flow information:		
Interest paid	**$ 51,243**	$ 110,920

12. Segmented Information

	December 31, 2010	December 30, 2009
Petroleum and natural gas revenue		
Canada	**$ 3,234,538**	$ 3,249,239
Turkey	**-**	-
	3,234,538	3,249,239
Net loss		
Canada	**(8,580,436)**	(2,750,591)
Turkey	**(554,560)**	-
	(9,134,996)	(2,750,591)
Capital expenditures		
Canada	**1,624,160**	3,696,926
Turkey	**5,383,334**	-
	7,007,494	3,696,926
Total assets		
Canada	**31,308,835**	12,342,266
Turkey	**7,449,988**	-
	$ 38,758,823	$ 12,342,266

13. 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 December 31, 2010, the Company's adjusted working capital ratio was 10.9 to 1.

14. Financial Instruments

Fair Values
The Company's financial instruments recognized in the consolidated balance sheets consist of cash, accounts receivable, 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.

Risk Management
The Company is exposed to financial risks arising from its financial assets and liabilities. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are as follows:

Credit Risk
Credit risk is primarily related to the Company's receivables from petroleum and natural gas marketers and joint venture partners, and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells its production to several petroleum and natural gas marketers so that the exposure to any one entity is minimized. Collection of accounts receivable may be affected by changes in economic or other conditions, however, management believes this risk is mitigated by the size and reputation of the companies to which credit is extended.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain other collateral from joint venture partners; however, in certain circumstances, it may cash call a partner in advance of the work. The Company also has the ability, in most cases, to withhold production from joint venture partners in the events of non-payment.

The Company records bad debt expense as determined by management based on assessment of collectability; therefore, the carrying amounts of accounts receivable generally represents the maximum credit exposure. The Corporation believes that its counterparties currently have the financial capability to settle outstanding obligations in the normal course of business. The Company incurred a write-off of receivables during the year ended December 31, 2010 totaling $28,374.

Currency Risk
Valeura conducts business in currencies other than Canadian dollars and accordingly is subject to currency risk associated with changes in foreign exchange rates in relation to cash, receivables, and payables. The impact related to working capital is somewhat mitigated as a result of the offsetting effects of foreign exchange fluctuations on assets and liabilities. Valeura monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates. At present, the Company does not have any derivative instruments in place with respect to currency risk. As at December 31, 2010, the Company held EUR19,851 and US$198,307 in foreign currency denominated accounts.

Commodity Price Risk
Commodity price risk is the risk that the fair values or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. At present, the Company does not have any derivative instruments in place with respect to commodity risk.

Interest Rate Risk
Valeura's debt is comprised of short-term demand facilities that bear interest at market rates. Currently, there is no amount drawn on the Company's credit facilities so the interest rate risk is minimal.

Liquidity Risk
Liquidity risk is the risk that Valeura will encounter difficulty in meeting obligations associated with its financial liabilities. The Company does not consider this to be a significant risk as its financial position and available committed borrowing facility provide significant financial flexibility and allow Valeura to meet its obligations as they come due. Valeura does not consider there to be a present risk in relation to funds available to the Company under its committed borrowing facility.

The nature of these risks and the Company's strategy for managing these risks has not changed significantly from the prior year.

15. Related Party Transactions

(a) During the year ended December 31, 2010, the Company incurred legal fees of $1,217,516 (2009 - $64,632) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the year ended December 31, 2010, the Company incurred $68,671 (2009 - $178,186) 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.

16. Commitments

On September 1, 2010, the Company entered into a farm-in agreement on lands held by Aladdin Middle East Ltd. ("AME") and Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP"). 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 I minimum earning program of US$8.8 million and an optional Phase II program of the same amount to increase earning expenditures up to a maximum of US$17.6 million. 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 I earning program is completed ($5.4 million was spent as of December 31, 2010). The additional Phase II program of US$8.8 million is discretionary under the farm-in agreement and is currently under review.

If any Phase II 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 II expenditures incurred, up to a maximum of 1.5% of US$8.8 million. The success fee, if any, 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 owed.

The Company has until December 31, 2011 to incur expenditures and earn interests in the production lease and exploration licenses under the AME-GYP farm-in agreement. The earning program entails evaluating an existing mature 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.

17. Subsequent Events

On December 14, 2010, the Company announced the acquisition of non-operated producing natural gas assets in the Thrace Basin in Turkey. The purchase price of US$3.1 million is inclusive of Turkish VAT and is subject to certain operating adjustments based on an effective date of October 1, 2010. The acquisition is expected to close by the end of March 2011 and will be funded by cash on-hand.

On February 9, 2011, the Company announced that it entered into a conditional offer to purchase $US61.5 million of Turkish assets. These assets are comprised of approximately 10.0 MMcf/d of natural gas production (net before royalties), 546,030 net acres of land in the Thrace and Anatolian basins of Turkey and exposure to an unconventional tight gas opportunity in the Thrace Basin. A non-refundable deposit in the amount of US$3.25 million has been paid to the vendor. The acquisition is expected to close in May 2011.

Transaction costs of $105,893 incurred in Q4-2010 are related to the asset acquisitions described in this note.

On February 28, 2011, the Company completed a private placement of subscription receipts for total gross proceeds of $86.25 million. Valeura issued a total of 265,384,350 subscription receipts at a price of $0.325 per subscription receipt. The underwriters will receive a fee equal to 5% of the gross proceeds raised, of which 35% was paid at closing and the remaining amount will be paid upon satisfaction of the escrow release conditions.

Each subscription receipt will represent the right to automatically receive one common share and one-half of one common share purchase warrant of the Company. Each full warrant entitles the holder to acquire one common share at a price of $0.55 per common share for a period of 60 months from the closing of the offering. The Company will have the right to accelerate the expiry of the warrants to 30 days from the date of notice if the 20 day volume weighted average price of the Company's common shares on the TSX Venture Exchange is equal to or greater than $1.10 per common share.

The gross proceeds from the offering will be held in escrow until the escrow conditions have been met. As the subscription receipts will be issued on a private placement basis, they will have a four month and one day restricted hold period from the date of issuance of the subscription receipts. If the acquisition does not close by July 11, 2011, the escrowed funds plus interest will be returned to the investors.

Upon conversion of the subscription receipts to common shares, the proforma common shares outstanding are shown below:

	December 31, 2010	February 2011 Private Placement	Proforma
Common Shares	198,677,125	265,384,350	464,061,475
Stock Options	10,825,000	-	10,825,000
Warrants	27,967,500	132,692,175	160,659,675
Diluted	237,469,625	398,076,525	635,546,150