valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 31, 2010 and 2009

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Valeura Energy Inc. ("Valeura" or the "Company") is dated as of March 9, 2011 and should be read in conjunction with Valeura's accompanying audited consolidated financial statements and related notes for the years ended December 31, 2010 and 2009.

Additional information relating to Valeura is available at www.sedar.com.

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

Valeura is currently engaged in the exploration, development and production of petroleum and natural gas in Turkey and Western Canada. The Company is continuing to pursue a strategy to expand internationally in Turkey and to 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.

Basis of Presentation

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"). The reporting and measurement currency is the Canadian dollar, unless otherwise indicated.

The discussion and analysis of oil and natural gas production is presented on a working-interest, before royalty basis. For the purpose of calculating unit of production information, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe as a unit of measure may be misleading, particularly if used in isolation.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, the determination of proved reserves, environmental and asset retirement obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-GAAP Measures – This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "operating netback" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "funds flow from operations" (net loss for the period adjusted for non-cash items in the statement of cash flows) are not GAAP measures and do not have standardized meanings prescribed by GAAP. The closest GAAP measure to operating netback and funds flow from operations is net loss – see the reconciliation of these non-GAAP financial measures to net loss on page 7 under "Results of Operations".

Forward-looking Statements – Certain information included in this MD&A constitutes forward-looking information under applicable securities legislation. Such forward-looking information is provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, information with respect to: the Company's growth strategy, operational decisions and the timing thereof, development and exploration plans for the Company's Turkish operations, including the completion of the Phase I earning requirement and the anticipated expenditures and timing associated with the Phase II earning program under the AME-GYP farm-in, and the drilling plans for the Altinakar-1 well, and the timing thereof, anticipated closing dates for the asset acquisitions in Turkey, and future production levels. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding and are implicit in, among other things: the ability of the Company to execute its strategy and close on acquisitions; field production rates and decline rates; the ability of the Company to secure adequate product transportation; the impact of increasing competition in or near the Company's plays; the timely receipt of any required regulatory approvals, both domestically and internationally; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner to develop its business; the Company's ability to operate the properties in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the state of the capital markets; the regulatory framework regarding royalties, taxes and environmental matters; the ability of the Company to successfully manage the political and economic risks inherent in pursuing oil and gas opportunities in foreign countries; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which have been used.

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

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this MD&A is expressly qualified by this cautionary statement**.**

valeura energy inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and years ended December 31, 2010 and 2009

Highlights and Selected Financial Information

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Financial				
Petroleum and natural gas sales	**$ 686,097**	$ 851,807	**$ 3,234,538**	$ 3,249,239
Net loss	**(2,045,583)**	(575,303)	**(9,134,996)**	(2,750,591)
Per share, basic and diluted	**(0.01)**	(0.01)	**(0.06)**	(0.04)
Funds flow from operations[1]	**(860,881)**	(132,008)	**(2,699,283)**	(266,282)
Per share, basic and diluted	**$ 0.00**	$ 0.00	**$ (0.02)**	$ 0.00
Production volumes				
Crude oil and NGL's (bbl/d)	**74**	82	**85**	90
Natural gas (Mcf/d)	**714**	1,032	**894**	1,176
Total (boe /d)	**193**	254	**234**	286
Sales prices				
Crude oil (per bbl)	**$ 71.42**	$ 66.84	**$ 68.20**	$ 60.11
Natural gas liquids (per bbl)	**49.75**	40.00	**44.63**	31.07
Natural gas (per Mcf)	**3.46**	4.37	**3.93**	3.72
Total (per boe)	**38.63**	36.43	**37.83**	31.14
Capital expenditures	**$ 4,913,044**	$ 624,369	**7,007,494**	3,696,926
Net working capital (deficiency)[2]			**19,696,967**	(5,250,713)
Cash and cash equivalents			**19,460,311**	-
Credit facility			**$ -**	$ 3,759,592
Weighted average shares outstanding (basic and diluted)	**198,677,125**	67,285,829	**158,212,958**	67,285,829

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

Outstanding Share Data

As at December 31, 2010	
Common shares	198,677,125
Stock options	10,685,000
Performance warrants	27,967,500
Diluted	237,329,625

The Company

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 to other selected countries in the Middle East and North Africa region ("MENA"), the Mediterranean Basin and Latin America. Valeura's shares are traded on the TSX Venture Exchange under the trading symbol VLE.

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

Plan of Arrangement

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

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

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

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

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

Comparative Amounts

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

Turkish Operations

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 a beneficial interest in one production lease and eight exploration licences in southeast Turkey. The Company committed to spending US$8.8 million (Phase I) to earn a 25% beneficial interest in the Kahta lease and three licenses at Karakilise, and a 14.95% beneficial interest in five licenses at Rubai. One exploration license in Karakilise was relinquished as at November 30, 2010 because a drillable location was not identified. Valeura has the option to increase its earning expenditures up to a total of US$17.6 million (Phase II) before December 31, 2011 to increase its beneficial interest on a sliding scale basis up to 50% in the Kahta lease and Karakilise licences and 29.9% in the Rubai licences. The programs in each phase involve a flexible mix of seismic, exploration and appraisal drilling, and recompletions over all licences and potential redevelopment work at Kahta, an existing heavy oil production lease. The Company's Phase I and potential Phase II programs on the exploration licences are aimed at maximizing retention of prospective licences prior to expiry. Phase I expenditures totalled $5.4 million in 2010 and are expected to increase to the Phase I commitment of US$8.8 million by the end of April 2011. A decision to proceed with the optional Phase II program is currently under review. The Company has the cash available to fund the entire Phase I and Phase II earning expenditures.

The capital program to earn Phase I was more than 60 percent complete at December 31, 2010, with the remaining Phase I expenditures to be incurred in Q1 2011. A comprehensive reservoir study on Kahta is well underway and will likely be followed by a 3D seismic program in Phase II. The objective of the Kahta study is to define potential redevelopment activities including recompletions, infill drilling, step out drilling of satellite structures and secondary recovery techniques. The Company completed shooting a 230 km 2D seismic program over the Karakilise licences, and is currently drilling one well in the Karakilise area. Additionally, the Karakilise-1 well was recompleted in Q4 2010 and is currently on production at approximately 30 barrels per day (gross). This recompletion established production and as a result, the Turkish regulatory agency granted a three year extension to license 2677 to November 30, 2013. During the third quarter of 2010, the Company recompleted a well at Ogunduk (Rubai licence) that appears capable of producing 30 to 50 barrels per day of heavy oil at a high water cut. The well is currently suspended pending completion of a review of possible further delineation of the Ogunduk prospect and a strategy to extend license 2599, if possible, before expiry at the end of June 2011. An additional 110 km of 2D seismic was shot over the Rubai licenses in the fourth quarter of 2010 and first quarter of 2011 to mature a possible drilling location to be spudded by the end of March 2011 to hold the Rubai licenses.

Outlook

During the fourth quarter of 2010, the Company made significant progress in meeting the Phase I earning expenditures under the AME-GYP farm-in agreement. The remaining capital for Phase I will be incurred by drilling the Altinakar-1 well which is anticipated to be completed in April 2011. Drilling encountered heavy oil in a secondary up-hole formation, the Mardin group, as disclosed on February 25, 2011, which will warrant additional testing of the Mardin before resuming the planned drilling to the Bedinian formation. Management is reviewing the merits of proceeding to Phase II, the first step of which would likely involve spudding a well in the Rubai licenses before the end of March 2011.

Acquisitions

After commencement of operations under the AME-GYP farm-in, Valeura continued to seek acquisition of producing assets in Turkey as a foundation for its corporate strategy.

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 estimated operating adjustment is expected to be a credit of US$0.8 million which will reduce the cash payment for this asset acquisition to US$2.3 million. The assets include approximately 2.2 MMcf/d of natural gas production and 35,028 net acres of land in the Thrace Basin. The acquisition is expected to close by the end of March 2011 and will be funded by existing cash on-hand.

On February 9, 2011, the Company announced that it entered into a conditional offer to purchase US$61.5 million of Turkish assets, effective October 1, 2010. These assets are comprised of approximately 10.0 MMcf/d of natural gas production (net before royalties) in the Thrace Basin, 546,030 net acres of land in the Thrace and Anatolian basins 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 by the end of May 2011.

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

Financing

On February 28, 2011, the Company completed a private placement of subscription receipts for total gross proceeds of $86.25 million to, among other things, fund the US$61.5 million purchase price of the assets described above. 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 of the financing 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 thereof to acquire one common share of the Company 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 release conditions have been met.[1]

If the escrow release conditions are met, notice will be delivered to the escrow agent holding the gross proceeds from the private placement that the escrow release conditions have been satisfied, and the gross proceeds (less the remaining fee to be paid to the underwriters) will be paid to the Company and each holder of subscription receipts will receive one common share and on-half of one common share purchase warrant for each subscription receipt held.

As the subscription receipts were issued on a private placement basis, they have a four month and one day restricted hold period from the date of issuance of the subscription receipts (February 28, 2011). If the acquisition does not close by July 11, 2011, the escrowed funds plus interest will be returned to the investors.

Business Development

The farm-in arrangement and two asset acquisitions, assuming these close as contemplated, creates a significant operation of 11-12 MMcf/d of premium priced natural gas production in the Thrace Basin of Turkey, and a large land base in excess of 830,000 net acres in the Thrace and Anatolian Basins with gas and oil targets respectively.

The Company is pursuing as a top priority other farm-in and acquisition opportunities in Turkey. These have the potential to further expand the Company's acreage position, particularly in the Thrace Basin. The Company is also pursuing other opportunities in the MENA region and Mediterranean Basin consistent with its announced strategy. The Company submitted a joint bid with Svenska Petroleum Exploration S.A. (Valeura 30%) in the Syrian bid round of exploration licenses in December 2010. The results are expected to be released in March 2011. Although expansion in the MENA region and Mediterranean Basin remains of prime interest, the Company may pursue acquisitions in Latin America and other regions on an opportunistic basis that otherwise meet its criteria of acceptable political and contract risk, attractive fiscal and royalty regimes, established infrastructure and significant deal flow, such that the Company can pursue its long term growth objectives.

[1] The escrow release conditions that must be met are: (i) all conditions precedent to the completion of the acquisition of the assets shall have been satisfied including, without limitation: any necessary government and regulatory approvals; and the conditional approval of the TSX Venture Exchange of the listing of the common shares (including common shares issuable on exercise of the warrants) and warrants to be issued to the subscribers under the private placement upon exchange of the subscription receipts; (ii) the lead underwriters of the private placement (on behalf of the underwriters) shall be satisfied that the acquisition will be completed substantially in accordance with the terms and conditions set forth in the definitive agreement relating thereto (without waiver of any material provision thereof, in whole or in part, by any of the parties thereto unless the consent of the lead underwriters, on behalf of the underwriters, is given to such waiver); (iii) there have been no material amendments of the terms and conditions of the offer to purchase the assets, as superceded by the definitive agreements relating thereto (whether directly or indirectly) which have not been approved by the lead underwriters, on behalf of the underwriters; and (iv) the Company is not in material breach of any of its material covenants under the underwriting agreement between the Company and the Underwriters relating to the private placement.

Results of Operations

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Petroleum and natural gas sales	**$ 686,097**	$ 851,807	**$ 3,234,538**	$ 3,249,239
Royalties	**(11,500)**	(53,940)	**(280,187)**	(268,965)
Production costs	**(358,640)**	(436,701)	**(1,662,365)**	(1,859,546)
Transportation	**(12,581)**	(22,744)	**(81,205)**	(80,111)
Operating netback	**303,376**	338,422	**1,210,781**	1,040,617
Other income	**44,863**	-	**118,333**	-
General and administrative	**(1,103,227)**	(232,052)	**(3,117,079)**	(995,979)
Interest	**-**	(38,378)	**(51,243)**	(110,920)
Transaction costs	**(105,893)**	(200,000)	**(860,075)**	(200,000)
Funds flow from operations[2]	**(860,881)**	(132,008)	**(2,699,283)**	(266,282)
Non-cash expenses				
Transaction costs	**-**	200,000	**(264,410)**	200,000
Shares issued for services (G&A)	**-**	-	**(98,560)**	-
Stock based compensation	**(521,334)**	(2,296)	**(2,960,948)**	(4,719)
Foreign exchange loss	**(50,989)**	-	**(76,522)**	-
Depletion, depreciation and accretion	**(612,379)**	(780,199)	**(3,035,273)**	(3,005,453)
Future income tax recovery	**-**	139,200	**-**	325,863
Net loss	**$ (2,045,583)**	$ (575,303)	**$ (9,134,996)**	$ (2,750,591)

Operating Netbacks (per boe)[3]

Petroleum and natural gas sales	**$ 38.63**	$ 36.43	**$ 37.83**	$ 31.14
Royalties	**(0.65)**	(2.31)	**(3.28)**	(2.58)
Production costs	**(20.19)**	(18.68)	**(19.44)**	(17.82)
Transportation	**(0.71)**	(0.97)	**(0.95)**	(0.77)
Operating netback	**$ 17.08**	$ 14.47	**$ 14.16**	$ 9.97

Petroleum and Natural Gas Production

Daily production				
Crude oil & NGL's(bbl/d)	**74**	82	**85**	90
Natural gas (Mcf/d)	**714**	1,032	**894**	1,176
Total (boe/d)	**193**	254	**234**	286

Average production volumes decreased 24 percent from 254 boe/d in Q4 2009 to 193 boe/d in Q4 2010. The decrease is due primarily to the shut-in of uneconomic natural gas producing properties, maintenance downtime at one Hays area oil well and higher than expected production declines in the Grand Forks/Hays properties, all of which were partially offset by the inclusion of acquired PanWestern production. Average production volumes of 234 boe/d for the year ended December 31, 2010 are 18 percent lower than the year ended December 31, 2009 for the same reasons.

[2] Non-GAAP measure – see note regarding non-GAAP measures on page 1
[3] Operating netbacks are calculated using production volumes on a boe basis for each period

Pricing Information

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Average benchmark prices				
Crude oil – Edmonton Light (per bbl)	**$ 80.32**	$ 76.56	**$ 77.50**	$ 65.98
Natural gas – AECO 5A (per Mcf)	**3.62**	4.49	**4.00**	3.95
Valeura's average realized prices				
Crude oil (per bbl)	**71.42**	66.84	**68.20**	60.11
Natural gas liquids (per bbl)	**49.75**	40.00	**44.63**	31.07
Natural gas (per Mcf)	**$ 3.46**	$ 4.37	**$ 3.93**	$ 3.72

Realized prices for oil and natural gas liquids increased by 7 percent and 24 percent, respectively, in the three month period ended December 31, 2010, and increased 13 percent and 44 percent, respectively, for 2010 when compared to the corresponding periods in 2009. Natural gas prices decreased by 21 percent in Q4 2010 compared to Q4 2009 but increased by 6 percent in the year ended December 31, 2010 compared to 2009. Canadian natural gas prices remain at weak levels. As a result, the Company has deferred capital expenditures for new drilling on Canadian natural gas properties.

Petroleum and Natural Gas Sales Revenues

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Revenues by product				
Crude oil	**$ 394,641**	$ 338,023	**$ 1,627,607**	$ 1,312,986
Natural gas liquids	**64,282**	97,970	**322,894**	342,991
Natural gas	**227,174**	415,814	**1,284,037**	1,593,262
Total revenues	**$ 686,097**	$ 851,807	**$ 3,234,538**	$ 3,249,239

Petroleum and natural gas sales revenues for Q4 2010 were 67 percent oil and natural gas liquids and 33 percent natural gas. Lower revenues for Q4 2010 as compared to Q4 2009 are primarily the result of lower crude oil and natural gas production, and lower natural gas prices, partially offset by increased oil and liquids prices. Petroleum and natural gas sales revenues for the year ended December 31, 2010 were slightly lower compared to 2009 due to lower production volumes offset by higher realized oil, liquids and natural gas prices in 2010.

Royalties

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Total	**$ 11,500**	$ 53,940	**$ 280,187**	$ 268,965
Percentage of revenue	**1.7%**	6.3%	**8.7%**	8.3%

Royalties decreased in Q4 2010 as compared to Q4 2009 due to lower natural gas prices and an oil well being reclassified as a heavy oil well with a lower royalty rate. Royalty rates for 2010 increased when compared to 2009 as the New Well Royalty Reduction Program in Alberta expired in Q1 2010. Royalty rates vary across periods depending on the production mix, prices and individual well production rates.

Operating Costs

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	**December 31, 2009**
Production costs	**$ 358,640**	$ 436,701	**$ 1,662,365**	$ 1,859,546
Transportation costs	**12,581**	22,744	**81,205**	80,111
Total operating costs	**$ 371,221**	$ 459,445	**$ 1,743,570**	$ 1,939,657
$ per boe	**20.90**	19.65	**20.39**	18.59

Overall operating costs decreased in Q4 2010 when compared to Q4 2009 primarily due to lower production. On a unit cost basis, costs increased to $20.90/boe in Q4 2010 versus $19.68/boe in Q4 2009. Unit operating costs were also higher in the year ended December 31, 2010 when compared to 2009 reflecting the same factors that drove unit costs higher in the quarter. Operating costs at Grand Forks/Hays are the largest component of corporate operating costs and are relatively high due to the cost to truck and process emulsion and equipment rental costs.

General and Administrative Expenses

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
General and administrative	**$ 870,757**	$ 266,702	**$ 2,299,207**	$ 1,499,542
Business development	**305,161**	-	**1,089,249**	-
Total gross general and administrative expenses	**1,175,918**	266,702	**3,388,456**	1,499,542
Recoveries	**(54,125)**	(3,750)	**(88,249)**	(70,475)
Capitalized general and administrative expenses	**(18,566)**	(30,900)	**(84,568)**	(433,088)
Total net general and administrative expenses	**$ 1,103,227**	$ 232,052	**$ 3,215,639**	$ 995,979

General and administrative ("G&A") costs increased significantly in Q4 2010 when compared to Q4 2009 due mainly to increased costs related to international business development activities consistent with the Company's new international growth strategy. Business development costs include third party agent's fees, consulting, software, legal and travel costs. Other G&A costs are higher due to a larger number of employees and consultants and higher office costs related to an increase in personnel. The Company capitalized $18,566 of general and administrative expenses in Q4 2010, compared to $30,900 for Q4 2009. Capitalization and recovery of general and administrative costs is lower in 2010 mainly due to lower capital spending in Canada. Capital activity is expected to increase significantly with the initiation of drilling activity in Turkey in 2011 which will result in increased recoveries and capitalized G&A in future periods.

Net general and administrative costs increased in the year ended December 31, 2010 as compared to December 31, 2009 as a result of the higher costs described above and lower capitalized general and administrative expenses. For the year ended December 31, 2010, the Company capitalized $84,568 of general and administrative expenses, a decline from $433,088 for the year ended December 31, 2009 due to reduced drilling activity.

Transaction Costs

Effective January 1, 2010, the Company adopted CICA Handbook standard Section 1582, "Business Combinations" under which acquisition related and restructuring costs are recognized separately from the business combination and are included in the statement of operations. Costs incurred for the year ended December 31, 2010 with respect to the Arrangement are $1,018,592 including $264,410 of non-cash expenses, with an additional $105,893 of transaction costs being expensed in the fourth quarter of 2010 for the previously announced asset acquisitions in Turkey that are expected to close during 2011.

Interest

Interest expense reflects the use of bank debt to fund capital expenditures and operating activities. The Company completed an equity financing of $6,000,000 (net) in conjunction with the closing of the Arrangement on April 9, 2010, followed by a further $22,513,423 (net) private placement of common shares that closed on April 16, 2010. This enabled the Company to repay the outstanding Northern Hunter bank loan creating a net cash position as at December 31, 2010.

There was no interest expense in Q4 2010 as compared to Q4 2009 due to the repayment of bank debt during Q2 2010. Interest expense was lower for the year ended December 31, 2010 as a result of the credit facility being repaid in Q2 2010.

The Company's $2,650,000 revolving demand facility and $1,000,000 million acquisition/development demand loan are currently undrawn.

Foreign Exchange Loss

The company incurred an unrealized foreign exchange loss in Q4 2010 of $50,989 and the year ended December 31, 2010 of $76,522. This is the result of the devaluation of the US dollar against the Canadian dollar which impacted working capital for Turkey denominated in US dollars. The Company did not have any foreign currency transactions in 2009.

Other Income

Other income of $44,863 (Q4 2009 – $nil) represents interest income related to cash on hand during Q4 2010. Interest income for the year ended December 31, 2010 was $118,333 (year ended December 31, 2009 - $nil), related to the Company's cash balances.

Funds Flow from Operations

The net outflow of funds from operations for Q4 2010 was $860,881 compared to $132,008 in Q4 2009. The net outflow of funds in the current quarter was due to increased general and administrative costs associated with international business development activities. The net outflow of funds from operations of $2,699,283 for the year ended December 31, 2010 resulted from corporate acquisition transaction costs and the same factors stated above compared to net outflow of $266,282 for the year ended December 31, 2009.

Non-cash Expenses:

Non-cash Transaction Costs

In the year ended December 31, 2010, the Company incurred $264,410 of non-cash transaction costs related to termination expenses for independent contractors upon closing the acquisition of PanWestern in Q2 2010 that were paid through the issuance of 113,000 common shares.

Non-cash General & Administrative Charges

In the year ended December 31, 2010, the Company incurred $98,560 of non-cash general and administrative costs related to the issuance of 349,504 shares to a company that assisted in securing the farm-in agreement in Turkey.

The issuance of these shares satisfied the terms of the consulting services agreement under which Valeura agreed to pay a success fee equal to 1.5% of the farm-in deal value.

Stock-based Compensation

Stock-based compensation expenses are the non-cash expenses associated with the stock options and performance warrants issued to directors, officers, employees and consultants of the Company. During the year ended December 31, 2010, the Company issued 10,685,000 stock options and 27,967,500 performance warrants, resulting in an increase to stock-based compensation as compared to the year ended December 31, 2009. The fair value of the stock options and performance warrants issued were estimated at between $0.17 and $0.33 per option and $0.16 per warrant using the Black-Scholes option-pricing model.

Stock-based compensation expense was $521,334 in Q4 2010 compared to $2,296 in Q4 2009, and $2,960,948 for the year ended December 31, 2010 compared to $4,719 for the year ended December 31, 2009. Northern Hunter had not granted stock options since 2008 and accordingly, the stock-based compensation expenses associated with the issue of previous stock options had been substantially amortized by both Q4 2009 and the year ended December 31, 2009.

Stock based compensation of $2,960,948 for 2010 includes $932,866 associated with the one-time revaluation of 3,295,000 PanWestern Old Options and 21,239,280 PanWestern Old Warrants that were revalued as a result of the Arrangement. This expense will not be incurred in future results as all the PanWestern Old Options and Old Warrants expired in 2010.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion ("DD&A") for Q4 2010 of $612,379 was lower than $780,199 for Q4 2009 due to lower production volumes partially offset by a higher DD&A rate. DD&A for the year ended December 31, 2010 of $3,035,273 was higher than $3,005,453 for the same period in 2009 due to a higher DD&A rate partially offset by lower volumes. The DD&A rate for Q4 2010 was $34.48 per boe as compared to $33.37 per boe for Q4 2009. The DD&A rate for the year ended December 31, 2010 was $35.50 per boe compared to $28.81 for the same period in 2009. The higher DD&A rate in 2010 compared to 2009 reflects the effect of technical revisions in the estimate of the Company's proved crude oil and natural gas reserves at December 31, 2009.

Future income taxes

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

As at December 31, 2010, the Company has approximately $24 million of tax pools available in Canada and $6 million of tax pools available in Turkey to shelter future taxable income.

Capital Expenditures

The following summarizes the Company's capital spending:

	Three months ended		Year ended	
Canada	**December 31, 2010**	December 31, 2009	**December 31, 2010**	December 31, 2009
Land	**$ -**	$ 75,587	**$ 2,552**	$ 128,628
Geological and geophysical	**-**	1,100	**-**	11,100
Drilling and completions	**63,560**	682,963	**938,041**	1,515,524
Equipment and facilities	**63,696**	143,819	**487,541**	1,918,586
Dispositions	**-**	(310,000)	**-**	(310,000)
Capitalized amounts and other	**57,780**	30,900	**196,026**	433,088
Canada total	**185,036**	624,369	**1,624,160**	3,696,926
Turkey				
Geological and geophysical	**3,865,008**	-	**4,185,367**	-
Drilling and completions	**845,334**	-	**1,169,871**	-
Capitalized amounts	**17,666**	-	**28,096**	-
Turkey total	**4,728,008**	-	**5,383,334**	-
Consolidated total	**$ 4,913,044**	$ 624,369	**$ 7,007,494**	$ 3,696,926

Canada

The capital program for Q4 2010 was comprised mainly of finalizing the drilling and completion of one well in the Milo area and installation of pumping equipment. Capital expenditures for the year ended December 31, 2010 are significantly lower than the year ended December 31, 2009 due to reduced drilling activity in response to low natural gas prices.

Turkey

Phase I of the Turkish capital program to earn interests under the AME-GYP farm-in agreement was initiated in the third quarter of 2010. The Company incurred $4,010,331 of geological and geophysical costs in 2010 as part of the 230 km 2D seismic program conducted over the Karakilise licences and 110 km 2D seismic program conducted in Rubai. The seismic program at Karakilise and Rubai was carried out in Q4 2010 and Q1 2011. This led to the selection of a drilling location on one of the Karakilise licenses (Altinakar-1), with lease and road construction completed in Q4 2010 at a cost of $226,792. The well is currently being drilled with completion of the drilling operation expected in April 2011 at a cost of US$4,000,000 on a turnkey basis. If this well demonstrates productive capability, the Company expects to be granted a 3-year extension to License 2674.

Additional geological and geophysical expenditures of $175,036 relate to a comprehensive reservoir study on Kahta, an existing heavy oil production lease. The study may lead to a 3D seismic program in 2011. The objective of the reservoir study is to define potential redevelopment activities including recompletions, infill drilling, step out drilling of satellite structures and secondary recovery techniques.

During 2010, the Company incurred expenditures of $943,079 for the recompletion of one well at Ogunduk (Rubai licence) and one well in Karakilise. A successful recompletion at the Karakilise-1 well was decisive in achieving a 3 year extension to the term of license 2677.

The completion of Phase I earning expenditures of US$8.8 million is expected to occur before the end of the first quarter of 2011.

Share Capital

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

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

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

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

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

On September 8, 2010, the Company issued 349,504 shares with a deemed value of $98,560 to a third party agent under terms of a consulting services agreement whereby a success fee equal to 1.5% of the farm-in deal value in Turkey was payable on closing of the farm-in. The remainder of the success fee will be payable on a pro-rata basis for any Phase II expenditures of the farm-in program.

As at December 31, 2010 the Company had 198,677,125 common shares outstanding.

2011 Financing

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 of the financing and the remaining amount will be paid upon satisfaction of the escrow release conditions.

Each subscription receipt represents 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 thereof 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 release conditions have been met (see footnote on page 6). As the subscription receipts were issued on a private placement basis, they 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

Performance Warrants

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

The vesting of the Valeura performance 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 performance 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 performance 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 performance warrants vest;

(2) if the applicable holder of performance 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 performance 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 performance warrants vest; and

(3) if the applicable holder of performance 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 performance 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 performance warrants vest.

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

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

As at December 31, 2010 and the date of this MD&A, there are a total of 27,967,500 performance warrants outstanding.

Stock Options

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

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

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

On September 20, 2010, Valeura issued 650,000 options to a new employee, exercisable as to one-third on each anniversary date and having a seven year term, and on November 29, 2010, the Company issued 450,000 options to a consultant with the same terms.

As at December 31, 2010, there are 10,685,000 options outstanding. As at the date of this MD&A, there are 10,825,000 options outstanding.

Liquidity, Financing and Capital Resources

Capital Resources

	Three months ended December 31, 2010	Year ended December 31, 2010
Opening cash position	$ 25,064,416	$ -
Inflow of funds		
Cash received on PanWestern acquisition	-	6,043,902
Issuance of shares (net of share issue costs)	-	29,272,973
Change in working capital & other	187,706	-
	187,706	35,316,875
Outflow of funds		
Cash outflow from operations	860,881	2,699,283
Capital expenditures	4,913,044	7,007,494
Asset retirement costs incurred	17,886	33,750
Repayment of Bank Facility	-	3,759,592
Change in working capital & other	-	2,356,445
	5,791,811	15,856,564
Closing cash position	$ 19,460,311	$ 19,460,311

As at March 31, 2010, Northern Hunter's working capital deficiency was $5,992,407, including a bank loan outstanding of $4,730,345.

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

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

As a result of the above events which occurred in April 2010, the Company repaid all amounts owing under the credit facility and had a positive working capital position of $19,696,967 as at December 31, 2010 (including a cash position of $19,460,311). In conjunction with the Arrangement, transaction costs of $1,018,592 were incurred for the year ended December 31, 2010.

Upon funding a 2010 capital program of $7.0 million and 2010 cash outflow from operations of $2.7 million, the Company has $19,696,967 of working capital on December 31, 2010. Looking forward to 2011, the Company has an opening cash position of $19.5 million and has raised an additional $86.25 million of equity (gross before fees and expenses) in the first quarter of 2011, expected to be released from escrow in May 2011. In addition, Valeura will have annualized cash flow from operations in Turkey estimated to be $20 to $25 million. These resources will be used to fund the remaining AME-GYP farm-in capital commitment of approximately $13.0 million, the combined acquisitions in the Thrace Basin of $63.8 million and the follow-up exploration and development program for the acquired assets over the next 12 to 18 months.

Valeura's credit facilities are with a Canadian chartered bank and are comprised of a $2,650,000 revolving operating demand loan at an interest rate of bank prime plus 1.5% and a $1,000,000 development demand loan at an interest rate of bank prime plus 1.75%. The credit facility is secured by a first floating charge demand debenture in the amount of $10,000,000 and a general security agreement over all assets. As at December 31, 2010, there were no amounts owing under the facility. Pursuant to the terms of the credit facility, the Company is subject to a financial covenant with respect to working capital with which the Company was in compliance at December 31, 2010.

Selected Quarterly Information

	Three months ended			
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
Petroleum and natural gas sales	$ 686,097	$ 794,216	$ 892,878	$ 861,347
Net loss	(2,045,583)	(2,198,913)	(3,145,674)	(1,744,826)
Net loss per share, basic and diluted	(0.01)	(0.01)	(0.01)	(0.03)

	Three months ended			
	December 31, 2009	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Petroleum and natural gas sales	851,807	897,873	966,232	533,327
Net loss	(575,303)	(1,174,449)	(763,731)	(237,108)
Net loss per share, basic and diluted	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.00)

Segmented Information

	Three months ended		Year ended	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Petroleum and natural gas revenue				
Canada	**$ 686,097**	$ 851,807	**$ 3,234,538**	$ 3,249,239
Turkey	**-**	-	**-**	-
	686,097	851,807	**3,234,538**	3,249,239
Net loss				
Canada	**(1,742,548)**	(575,303)	**(8,580,436)**	(2,750,591)
Turkey	**(303,035)**	-	**(554,560)**	-
	(2,045,583)	(575,303)	**(9,134,996)**	(2,750,591)
Capital expenditures				
Canada	**185,036**	624,369	**1,624,160**	3,696,926
Turkey	**4,728,008**	-	**5,383,334**	-
	$ 4,913,044	$ 624,369	**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

Total assets in Turkey are comprised of $5,383,334 in capital expenditures on property, plant and equipment, and $2,066,654 of cash, prepaid expenses and cash call receivables relating to the capital program currently underway.

Commitments

On September 1, 2010, the Company entered into a farm-in agreement with AME and 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$8,800,000. 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.

Asset retirement obligations

As at December 31, 2010, the undiscounted, escalated asset retirement obligations associated with the Company's existing properties was estimated to be $741,000, with approximately $397,000 estimated to be payable within the next five years. These obligations have been recorded using a discount rate of 8% and an inflation rate of 2%. At December 31, 2010 the carrying amount of the Company's asset retirement obligation was $487,914 (December 31, 2009 - $186,500).

Related Party Transactions

(a) During the three months and year ended December 31, 2010, the Company incurred legal fees of $238,913 and $1,217,516, respectively (2009 - $18,600 and $64,632) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three months and year ended December 31, 2010, the Company incurred $nil and $68,871, respectively (2009 - $34,100 and $178,186) in consulting fees and expenses from a corporation whose principal shareholder is a director of the Company.

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 estimated operating adjustment is expected to be a credit of US$0.8 million which will reduce the cash payment for this asset acquisition to US$2.3 million. The assets include approximately 2.2 MMcf/d of natural gas production and 35,028 net acres of land in the Thrace Basin. The acquisition is expected to close by the end of March 2011 and will be funded by existing cash on-hand.

On February 9, 2011, the Company announced that it entered into a conditional offer to purchase US$61.5 million of Turkish assets, effective October 1, 2010. 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. The acquisition is expected to close in May 2011.

Transaction costs of $105,893 incurred for the three months ended December 31, 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 release conditions have been met (see footnote on page 6). As the subscription receipts were issued on a private placement basis, they 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.

Selected Annual Information

	2010	2009	2008 (unaudited)
Petroleum and natural gas sales	**$ 3,234,538**	$ 3,249,239	$ 3,274,958
Net income (loss)	**(9,134,996)**	(2,750,591)	52,919
Net loss per share, basic and diluted	**(0.06)**	(0.04)	0.00
Total assets	**38,758,823**	12,342,266	11,066,330
Working capital (deficiency)	**19,696,967**	(5,250,713)	(1,815,485)
Bank debt	**-**	3,759,592	848,694

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements outstanding as at December 31, 2010 and there are no arrangements outstanding at the date of this MD&A other than the credit facilities in favour of the bank which are secured through the existing $10,000,000 floating charge debenture.

Financial Instruments

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

Business Risks and Uncertainties

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

Foreign Operations

The Company pursues operations outside of Canada. As such, the Company's operations will be subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, interpretation or renegotiation of existing contracts, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. Problems may also arise due to the quality or failure of locally obtained equipment or technical support, which could result in failure to achieve expected target dates for exploration operations or result in a requirement for greater expenditure.

The Company will operate in such a manner as to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company in Turkey or Canada will be affected by numerous factors beyond its control. The Company's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company's revenues, profitability, future growth and the carrying value of its oil and gas properties, provided such properties yield production, are substantially dependent on prevailing prices of oil and gas.

The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The exchange rate between the Canadian and U.S. dollar also affects the profitability of the Company.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/United Stated dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar although the Canadian dollar has recently decreased from such levels. Material increases in the value of the Canadian dollar will negatively impact the Company's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators. To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. An increase in interest rates could result in a significant increase in the amount the Company may be required to pay to service debt.

Volatility of Commodity Prices

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

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

The impact on the oil and gas industry, in general, from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increases in cost during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline. This volatility causes significant variation in net production revenue for the Company from period to period. In an environment of low prices, certain wells or other projects may become uneconomic and the Company may elect not to produce from certain wells, leading to a reduction in development opportunities and the volume and value of reserves.

Volatile oil and gas prices make it difficult to estimate the acquisition value of producing properties and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value.

Capital Requirements

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

Third Party Credit Risk

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

Exploration, Development and Production

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

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

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

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

Uncertainty of Reserve Estimates

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

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

Environment, Health and Safety

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. In Canada and other international jurisdictions, environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. There are potential risks to the environment inherent in the business activities of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The potential inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Insurance

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

Critical Accounting Estimates

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

The critical accounting estimates that are inherent in the preparation of the Company's financial statements pertain to the accounting for property and equipment, impairment testing of property and equipment, estimates of reserves, asset retirement obligations, stock-based compensation and future income taxes. A comprehensive discussion of the Company's significant accounting policies and critical accounting estimates are contained in the Company's audited financial statements and MD&A for the years ended December 31, 2010 and 2009.

Changes in Accounting Policies

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

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

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

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

New Accounting Standards

International Financial Reporting Standards ("IFRS")

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

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

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

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

Valeura will use these exemptions.

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

- Exploration and Evaluation ("E&E") assets – on transition to IFRS Valeura will re-classify all E&E assets that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land and that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment at the transition date and when indicators of impairment exist. Valeura has determined that its E&E balance at January 1, 2010 will be $nil.
- Property, plant and equipment ("PP&E") – this includes oil and gas assets in the development and production phases. The Company has allocated the amount recognized under current Canadian GAAP as at January 1, 2010 using both reserve volumes and reserve values to a cash generating unit ("CGU"). Valeura will use reserve values to allocate the amount recognized under current Canadian GAAP to the CGUs.
- Impairment of PP&E assets – under IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which is required under current Canadian GAAP through the full cost ceiling test. Impairment calculations are required to be performed using fair values of the PP&E assets and Valeura anticipates using discounted proved plus probable reserve values for impairment tests of PP&E. Valeura does not anticipate its PP&E assets to be impaired as at January 1, 2010 under IFRS.
- Impairment of goodwill – for goodwill impairment tests under IFRS, goodwill that arises from a business combination should be allocated to the specific CGUs that are expected to benefit from the business combination. The carrying value of the CGU including goodwill is compared to the fair value of the CGU and

any excess of the carrying value over the fair value is considered an impairment. The Company recorded goodwill associated with the PanWestern acquisition in Q2 2010.

- Depletion expense – on transition to IFRS Valeura has the option to base the depletion calculation using either proved reserves or proved plus probable reserves. Valeura will use proved plus probable reserves.
- Share-based payments – the Company has determined the major differences from current Canadian GAAP that have an impact are treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. Valeura does not anticipate the difference to be significant.
- Provisions – the major difference between the current Canadian standard and IFRS is the discount rate used to measure the asset retirement obligation ("ARO"). Under the current Canadian standard a credit-adjusted risk free rate is used, whereby IFRS allows the use of a risk free rate when the expected cash flows are risked. There was debate within the industry on the discount rate and whether there should be a risk component to it. Based on recent comments made by the standard setters and positions within the industry, Valeura believes that a risk free rate is more appropriate. As a result, Valeura has measured its ARO liability on transition using a risk free rate of approximately 4% resulting in an increase to the liability of approximately $67,000 with an offsetting charge to the opening deficit.

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

Internal controls over financial reporting – based on the Company's accounting policies under IFRS, management has assessed whether additional controls or changes in procedures are required. Valeura does not consider these changes to be significant.

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

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

New IFRS pronouncements that the Company is considering are as follows:

Amendments to IFRS 7 (Financial Instruments: Disclosures) – The amendments emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments and is effective for annual periods beginning on or after July 1, 2011. Valeura is currently assessing the impact of these amendments.

IFRS 9 (Financial Instruments) – This is the first standard issued as part of a wider project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 also includes the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. Guidance on how to measure the fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, remain the same as IAS 39. This standard is effective January 1, 2013, however, prior periods need not be restated if adopted January 1, 2012. Valeura is currently assessing the impact of the new standard, although Valeura currently has no hedging contracts in place at the date of this MD&A.

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

Disclosure Controls and Internal Controls over Financial Reporting (ICFR)

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures ("DCP") and internal controls over financial reporting ("ICFR") as at December 31, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that the design and operation of these disclosure controls and procedures were effective as at December 31, 2010 and provide reasonable assurance that material information relating to the Company including its consolidated subsidiaries, would be made known to them. The Company's disclosure controls and procedures and internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

During the quarter ended December 31, 2010, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. The Company has continually had in place systems regarding DCP and ICFR and will continue to monitor such procedures as the Company's business evolves.