Interim Consolidated Financial Statements (unaudited)

Three months ended March 31, 2011 and 2010

.

valeura energy inc.

Consolidated Statements of Financial Position

(unaudited)	**March 31, 2011**	December 31, 2010	January 1, 2010
Assets		*(note 20)*	*(note 20)*
Current Assets			
Cash and cash equivalents	**$ 9,737,280**	$ 19,460,311	$ -
Restricted cash *(note 9)*	**86,249,914**	-	-
Accounts receivable	**1,151,313**	2,264,592	497,337
Prepaid expenses and deposits *(note 9, 19)*	**2,413,723**	228,763	89,938
	99,552,230	21,953,666	587,275
Exploration and evaluation assets *(note 6, 8)*	**6,988,010**	5,389,420	-
Property, plant and equipment *(note 7, 8)*	**11,996,845**	10,689,169	11,415,791
Goodwill *(note 8)*	**134,495**	134,495	-
Deposits *(note 9, 19)*	**3,159,650**	-	-
Deferred taxes	**-**	-	139,200
	$ 121,831,230	$ 38,166,750	$ 12,142,266
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 3,001,603**	$ 2,256,699	$ 2,078,396
Subscription receipts payable *(note 9, 19)*	**86,249,914**	-	-
Credit facilities *(note 10)*	**-**	-	3,759,592
	89,251,517	2,256,699	5,837,988
Decommissioning obligations *(note 11)*	**912,322**	594,994	253,900
Deferred premium on flow-through shares	**-**	-	58,500
Shareholders' Equity			
Share capital *(note 12)*	**46,974,024**	46,974,024	11,076,280
Contributed surplus	**5,628,613**	5,013,957	164,587
Accumulated other comprehensive income (loss)	**(110)**	203	-
Deficit	**(20,935,136)**	(16,673,127)	(5,248,989)
	31,667,391	35,315,057	5,991,878
	$ 121,831,230	$ 38,166,750	$ 12,142,266

See accompanying notes to the consolidated financial statements

See commitments *(note 18)* and subsequent events *(note 19)*

Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2011 and 2010

(unaudited)		March 31, 2011		March 31, 2010
Revenue				
Petroleum and natural gas sales	**$**	**562,132**	$	861,347
Royalties		**(56,280)**		(73,505)
Other Income		**41,930**		-
		547,782		787,842
Expenses				
Production		**365,434**		389,965
Transportation		**7,569**		21,936
General and administrative		**1,488,215**		292,596
Transaction costs *(note 5)*		**610,889**		386,951
Financing *(note 14)*		**3,108**		46,411
Foreign exchange loss		**114,004**		-
Stock-based compensation *(note 12)*		**614,656**		848,221
Exploration and evaluation *(note 6)*		**1,377,650**		95,795
Depletion and depreciation *(note 7, 8)*		**228,266**		332,378
		4,809,791		2,414,253
Loss for the year before income taxes		**(4,262,009)**		(1,626,411)
Deferred tax expense		-		80,700
Net loss		**(4,262,009)**		(1,707,111)
Other comprehensive loss				
Currency translation adjustments		**(313)**		-
Comprehensive loss		**(4,262,322)**		(1,707,111)
Net loss per share *(note 12(b))*				
Basic	**$**	**(0.02)**	$	(0.03)
Diluted	**$**	**(0.02)**	$	(0.03)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
For the three months ended March 31, 2011 and 2010

(unaudited)		**March 31, 2011**		March 31, 2010
Cash was provided by (used in):				
Operating activities:				
Net loss for the year	**$**	**(4,262,009)**	$	(1,707,111)
Items not involving cash:				
Depletion and depreciation		**228,266**		332,378
Exploration and evaluation expenses *(note 6)*		**1,377,650**		95,795
Stock-based compensation *(note 12)*		**614,656**		848,221
Financing expenses *(note 14)*		**3,108**		2,500
Unrealized foreign exchange loss		**114,004**		-
Deferred tax expense		**-**		80,700
		(1,924,325)		(347,517)
Change in non-cash operating working capital *(note 13)*		**(213,601)**		278,576
		(2,137,926)		(68,941)
Financing activities:				
Net change in credit facility		**-**		970,753
Subscription receipt proceeds		**(86,249,914)**		-
Change in non-cash financing working capital *(note 13)*		**84,373,160**		-
		(1,876,754)		970,753
Investing activities:				
Property and equipment expenditures		**58,428**		(298,382)
Acquisition of Edirne assets *(note 5)*		**(1,946,450)**		-
Exploration and evaluation expenditures		**(2,309,940)**		(95,795)
Change in non-cash investing working capital *(note 13)*		**(1,501,844)**		(507,635)
		(5,699,806)		(901,812)
Foreign exchange on cash held in foreign currencies		**(8,545)**		-
Net change in cash and cash equivalents		**(9,723,031)**		-
Cash and cash equivalents, beginning of period		**19,460,311**		-
Cash and cash equivalents, end of period	**$**	**9,737,280**	$	-

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2011 and 2010

(unaudited)	Number of Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2011	198,677,125	$ 46,974,024	$ 5,013,957	$ (16,673,127)	$ 203	$ 35,315,057
Net loss for the period	-	-	-	(4,262,009)	-	(4,262,009)
Foreign exchange translation	-	-	-	-	(313)	(313)
Stock-based compensation expensed	-	-	614,656	-	-	614,656
Balance, March 31, 2011	**198,677,125**	**$ 46,974,024**	**$ 5,628,613**	**$ (20,935,136)**	**$ (110)**	**$ 31,667,391**

(unaudited)	Number of Shares	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2010	67,285,829	$ 11,076,280	$ 164,587	$ (5,248,989)	$ -	$ 5,991,878
Net loss for the period	-	-	-	(1,707,111)	-	(1,707,111)
Stock-based compensation expensed	-	-	848,221	-	-	848,221
Balance, March 31, 2010	67,285,829	$ 11,076,280	$ 1,012,808	$ (6,956,100)	$ -	$ 5,132,988

1. 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 and the Mediterranean Basin. Valeura's shares are traded on the TSX Venture Exchange under the trading symbol VLE. The address of Valeura's registered office is 550, 333 – 11 Avenue SW, Calgary, Alberta.

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 5). 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.

Valeura adopted a strategy to achieve early international growth through opportunistic acquisitions of producing assets with exploitation and exploration upside in selected countries in the regions of interest. The Company completed its first international transaction in Turkey, one of the targeted countries, on September 1, 2010 and had executed two other transactions in Turkey as at March 31, 2011.

Valeura's first transaction in Turkey was a two-phase farm-in on lands held by Aladdin Middle East Ltd. ("AME") and Guney Yildizi Petrol Uretim Sondaj, Muteahhitlik ve Ticaret A.S. ("GYP") for a minimum consideration of US$8.8 million (Phase I) and a maximum consideration of US$17.6 million (Phase I + Phase II) by the end of 2011. The lands are in the Anatolian Basin in southeast Turkey, which are prospective for light and heavy oil development, exploitation and exploration. The lands included a production lease on the Kahta heavy oil field, three exploration licenses in the Karakilise area and five exploration licenses in the Rubai area. Subsequent to the execution of the farm-in agreement, one exploration license was relinquished in the Karakilise area and a second has been continued for a further three years following a successful recompletion of an existing well. An application has been submitted to the General Directorate of Petroleum Affairs of the Republic of Turkey ("GDPA") to continue the third exploration license for a further three years following a new discovery drilled by Valeura under the earning program. At Rubai, the five exploration licenses expired due to failure in meeting the district drilling requirements. Valeura re-applied for one of the expired Rubai exploration licenses on May 12, 2011. The outcome and timing of this application are uncertain.

On December 14, 2010 Valeura executed a definitive agreement to purchase certain non-operated producing natural gas assets in the Thrace Basin in northwest Turkey owned by Edirne Enerji Petrol Arama Üretim Ve Ticaret Limited Şirketi ("Edirne"). The Edirne acquisition subsequently closed on March 24, 2011 for a total cash payment of approximately US $2.3 million. This payment included VAT payable on the transaction and reflected purchase price adjustments from the effective date of October 1, 2010 to January 31, 2011.

On February 9, 2011 Valeura executed a conditional offer with an affiliate of TransAtlantic Petroleum Ltd. to jointly acquire certain producing natural gas assets and lands in the Thrace Basin of northwest Turkey and interests in exploration lands in the Southeast Anatolian Basin (Gaziantep area) of southeast Turkey owned by Thrace Basin Natural Gas (Turkiye) Corporation ("TBNG") and Pinnacle Turkey Inc. ("PTI") for a purchase price of US$61.5 million in cash (Valeura's share). The transaction closed on June 8, 2011 at a final purchase price after adjustments to March 31, 2011 of approximately US$57.3 million, including tax payable (other than VAT).

2. Basis of Preparation

(a) Statement of compliance

The interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). These financial statements are the Company's first IFRS interim consolidated financial statements after its transition to reporting in accordance with IFRS and before the issuance of its first publicly issued annual consolidated IFRS financial statements. IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied to these interim consolidated financial statements. These interim consolidated financial statements use the accounting policies which the Company expects to adopt in its annual consolidated financial statements for the year ended December 31, 2011, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20. The note includes reconciliations of equity and net loss for comparative periods from former Canadian GAAP ("previous GAAP") to IFRS.

The consolidated financial statements were authorized for issue by the Board of Directors on June 14, 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments that are measured at fair value.

The methods used to measure fair values are discussed in note 4.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars which is Valeura's reporting currency. Several of Valeura's subsidiaries transact in currencies other than the Canadian dollar and accordingly have functional currencies other than the Canadian Dollar. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the balance sheet date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive income or loss ("AOCI") and are held within AOCI until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange gain or loss which is recorded in net earnings.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Reserve estimates including production profiles, future development costs, and discount rates are a critical part of many of the estimated amounts and calculations contained in the financial statements. These estimates are verified by third party professional engineers, who work with information provided by the Company to establish reserve determinations. These determinations are updated at least on an annual basis.

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that impact the amounts recognized in the interim consolidated financial statements include:

- Impairment testing – estimates of reserves, future commodity prices, future costs, production profiles, discount rates and the market value of undeveloped land.
- Depletion and depreciation - oil and natural gas reserves, including future prices, costs and the reserve base to use in calculation of depletion.
- Decommissioning obligations – estimates relating to amounts, likelihood, timing, inflation and discount rates.
- Stock-based compensation – forfeiture rates and share price volatility.
- Deferred tax expense – estimates relating to the reversal of temporary differences, tax rates substantively enacted, and likelihood of assets being realized.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Certain comparative amounts have been reclassified to conform to the current period's presentation.

(a) Basis of consolidation

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of loss as a gain.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise accounts receivable, cash and cash equivalents, restricted cash, and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less. Other non-derivative financial instruments, such as restricted cash, accounts receivable and accounts payable, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Goodwill

Goodwill is tested for impairment at least annually by comparing the fair value of the cash generating units to the carrying amount attributable to goodwill. If the carrying amount exceeds the fair value, an impairment loss is recognized for the excess amount.

(d) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement:

Exploration and evaluation ("E&E") expenditures:

Pre-license costs are recognized in the statement of loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

Development and production costs:

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cash Generating Units ("CGU" or "CGUs") for impairment testing. The Company allocated its historical PP&E cost at January 1, 2010, the date of IFRS transition, to the CGUs, based on a proration using December 31, 2009 externally determined reserve values underlying each of the CGUs. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

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

(iv) Exploration and evaluation expense:

Upon determination that an exploration and evaluation CGU is impaired, the Company will transfer costs associated with the applicable CGU to exploration and evaluation expense in the period.

(e) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, an impairment test is completed each year.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

(f) Share based payments

The grant date fair value of options granted to employees is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(i) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

(l) Flow through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements in Canada are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes is recognized on the statement of financial position. As expenditures are incurred the deferred tax liability associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(m) New standards and interpretations not yet adopted

In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments; Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. The Company is currently evaluating the impact of adopting IFRS 9.

4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment and intangible exploration and evaluation assets:

The fair value of PP&E recognized in an acquisition, is based on market values. The market value of PP&E is the estimated amount for which property, plant & equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in PP&E) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of exploration and evaluation assets is estimated based on either internally or externally prepared evaluations of these assets.

(ii) Cash and cash equivalents, restricted cash, accounts receivable and accounts payable.

The fair value of cash and cash equivalents, restricted cash, accounts receivable and accounts payable are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011 and December 31, 2010, the fair value of these balances approximated their carrying values due to their short term to maturity.

(iii) Stock options:

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds).

5. Corporate and Asset Acquisitions

(a) Acquisition of PanWestern

On April 9, 2010, PanWestern closed a Plan of Arrangement with Northern Hunter to acquire all the issued and outstanding shares of Northern Hunter. Transaction costs of $386,951 were expensed for the three months ended March 31, 2010. The purchase price paid by PanWestern (now Valeura) for all of Northern Hunter's shares was a total of 67,285,829 common shares. 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	$	6,325,960
Fair value of 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
Decommissioning obligations		(324,217)
Goodwill		291,489
	$	6,542,418

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

		As Stated		PanWestern Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	861,347	$	163,431	$	1,024,778
Net loss	$	(1,707,111)	$	(101,337)	$	(1,808,448)

(b) Acquisition of Edirne Assets

On March 24, 2011 Valeura announced completion of the Edirne asset acquisition in Turkey. The purchase price allocation is as follows:

Consideration		
Cash	$	1,946,450

Purchase price allocation		
Property, plant and equipment	$	1,594,370
Decommissioning obligations		(314,220)
Exploration and evaluation assets		666,300
	$	1,946,450

The following amounts for the Edirne assets are Included in the consolidated statements of loss and comprehensive loss from closing to March 31, 2011:

Natural gas sales	$	84,015
Royalties		(10,502)
Production expenses		(33,324)
	$	40,189

If the Edirne assets had been acquired on January 1, 2011, the consolidated petroleum and natural gas sales and net loss figures for Valeura for three months ended March 31, 2011 would have been as follows:

Three months ended March 31, 2011	As Stated	Edirne Assets Prior to Acquisition	Proforma
Petroleum and natural gas sales	$ 562,132	$ 836,311	$ 1,398,443
Net loss	$ (4,262,009)	$ (45,344)	$ (4,307,353)

Transaction costs of $610,889 were expensed for the three months ended March 31, 2011 pertaining to both the Edirne and TBNG-PTI asset acquisitions.

6. Exploration and Evaluation Assets

Cost or deemed cost	Total
Balance, January 1, 2010	$ -
Additions	6,089,339
Transfer to property, plant and equipment	-
Transfer to exploration and evaluation expense *(note 20(E))*	(699,919)
Balance, December 31, 2010	5,389,420
Edirne asset acquisition *(note 5)*	666,300
Additions	2,309,940
Transfer to property, plant and equipment	-
Transfer to exploration and evaluation expense	(1,377,650)
Balance, March 31, 2011	**$ 6,988,010**

Exploration and evaluation assets consist of the Company’s exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company’s share of costs incurred on E&E assets during the period. Transfers to exploration and evaluation expense represent the Company’s share of impairment on E&E CGUs.

(a) Impairment charge

The impairment of exploration and evaluation assets, and any eventual reversal thereof, is recognized as exploration and evaluation expense in the statement of loss.

(b) Recoverability of exploration and evaluation assets

The Company assesses the recoverability of exploration and evaluation assets, before and at the moment of reclassification to property, plant and equipment, using CGUs. The CGU includes both the E&E CGU and CGUs related to oil and natural gas interests for that area, but not larger than a segment.

(c) Turkey exploration and evaluation assets

On May 9, 2011, Valeura was notified by AME that the Rubai exploration licenses 2759, 2598, 2599, 2600 and 2601 (the “Rubai licenses”) in southeast Turkey expired for failure to meet the district timing requirements for drilling.

This development impacts Valeura since the Rubai licenses were part of the farm-in lands associated with the AME-GYP farm-in. As at March 31, 2011, Valeura had invested $1,377,650 in the Rubai licenses. As a result of the expiration of the Rubai licenses the value of the CGU containing the Rubai licenses is impaired and Valeura has adjusted the carrying value of its exploration and evaluation assets accordingly.

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.

7. Property, Plant and Equipment

Cost or deemed cost		Total
Balance, January 1, 2010	$	11,415,791
Additions		838,014
Corporate acquisition *(note 5)*		1,083,390
Change in decommissioning obligations *(note 11)*		39,485
Capitalized stock-based compensation		29,755
Balance, December 31, 2010		13,406,435
Dispositions		(58,428)
Edirne asset acquisition *(note 5)*		1,594,370
Balance, March 31, 2011	**$**	**14,942,377**

Accumulated depletion and depreciation		Total
Balance, January 1, 2010	$	-
Depletion and depreciation expense		1,396,032
Impairment *(note 20(C))*		1,321,234
Balance, December 31, 2010		2,717,266
Depletion and depreciation expense		228,266
Balance, March 31, 2011	**$**	**2,945,532**

Net book value		Total
Balance, January 1, 2010	$	11,415,791
Balance, December 31, 2010	$	10,689,169
Balance, March 31, 2011	**$**	**11,996,845**

(a) Impairment charge

The impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the statement of loss.

(b) Contingencies

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

(c) Canada

As at March 31, 2011 petroleum and natural gas properties in Canada include estimated future development costs of $2,981,000 (December 31, 2010 – $2,981,000) associated with the development of the Company's proved plus probable reserves in Canada.

(d) Turkey

The Company closed the Edirne asset acquisition in Turkey (see note 5) acquiring developed and producing assets in the amount of $1,594,370, including $314,220 of non-cash decommissioning obligations. There are no future development costs associated with this asset pending an independent assessment of proved plus probable reserves for the Edirne assets, planned for year-end 2011.

8. Impairment Loss

The following tables summarize amounts recognized as impairment for goodwill, PP&E assets and E&E assets through either depletion and depreciation or exploration and evaluation expense:

		Total
Impairment, January 1, 2010	$	-
Impairment of goodwill *(note 20(K))*		156,994
Impairment of PP&E assets *(note 7)*		1,321,234
Impairment of E&E assets *(note 6)*		699,919
Cumulative Impairment, December 31, 2010		2,178,147
Impairment of E&E assets *(note 6)*		1,377,650
Cumulative impairment, March 31, 2011	**$**	**3,555,797**

9. Restricted Cash

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 received a fee equal to 5% of the gross proceeds raised, of which $1,509,373 was paid at closing and the remaining amount of $2,803,122 was paid upon satisfaction of the escrow release conditions.

The gross proceeds from the offering were held in escrow until the escrow conditions were met upon closing of the TBNG-PTI asset acquisition on June 8, 2011 (see note 19). Release of the proceeds from escrow was a contingent condition. If the acquisition had not closed by July 11, 2011, the escrowed funds plus interest would have been returned to the investors unless an extension was negotiated. As such, the Company recorded a financial liability at March 31, 2011 equal to the gross proceeds of the private placement.

10. Credit Facilities

On March 31, 2011, 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 March 31, 2011 the Company had not drawn an amount on either the revolving operating or development demand loans and is in compliance with all covenants. The credit facitlities are currently under review.

11. Decommissioning Obligations

	Three months ended March 31, 2011	Year ended December 31, 2010
Decommissioning obligations, beginning of year	**$ 594,994**	$ 253,900
Obligations incurred on acquisitions *(note 5)*	**314,220**	324,217
Obligations incurred	**-**	39,485
Obligations settled	**-**	(33,750)
Change in estimated future cash outflows	**-**	-
Accretion of decommissioning liabilities *(note 14)*	**3,108**	11,142
Decommissioning obligations, end of period	**$ 912,322**	$ 594,994

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $912,322 as at March 31, 2011 (December 31, 2010 - $594,994) based on an undiscounted total future liability of $1,084,000 (December 31, 2010 - $741,000). These payments are expected to be made over the next 12 years. The discount factor, being the risk-free rate related to the liability, is 3.50% (2010 – 3.50%).

12. Share Capital

(a) Authorized

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

(b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three months ended March 31, 2011 is 198,677,125 (three months ended March 31, 2010 – 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.

(c) Performance warrants

Valeura has issued the following performance warrants to officers and directors of the Company:

	Number of Performance Warrants	Weighted average exercise price
Balance, January 1, 2010	-	$ -
Granted	27,967,500	$ 0.20
Balance, December 31, 2010 and March 31, 2011	**27,967,500**	**$ 0.20**
Exercisable at March 31, 2011	**9,322,500**	**$ 0.20**

The vesting of the 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:

(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.

The following table summarizes information about all performance warrants outstanding at March 31, 2011:

Exercise prices	Outstanding at March 31, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2011	Weighted average exercise price
$0.20	27,967,500	3.8	$ 0.20	9,322,500	$ 0.20

The fair value of the performance warrants issued was estimated using the Black-Scholes 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 forfeiture (%)	5
Expected dividend yield (%)	-

(d) Stock options

Valeura has an option program that entitles officers, directors, and employees to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a 7 year term and vest over 3 years.

The number and weighted average exercise prices of share options are as follows:

	Number of Options	Weighted average exercise price
Balance, January 1, 2010	809,000	$ 0.94
Granted	10,685,000	$ 0.22
Options assumed on April 9, 2010 corporate acquisition	3,295,000	$ 0.78
Exercised	(809,000)	$ 0.94
Forfeited	(3,295,000)	$ 0.78
Balance, December 31, 2010	10,685,000	$ 0.22
Granted	140,000	$ 0.37
Balance, March 31, 2011	**10,825,000**	**$ 0.22**
Exercisable at March 31, 2011	**3,195,000**	**$ 0.20**

The following table summarizes information about the stock options outstanding at March 31, 2011:

Exercise prices	Outstanding at March 31, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2011	Weighted average exercise price
$0.20	9,585,000	5.8	$ 0.20	3,195,000	$ 0.20
$0.345	650,000	6.5	$ 0.35	-	$ -
$0.365	590,000	6.7	$ 0.37	-	$ -
	10,825,000	5.9	$ 0.22	3,195,000	$ 0.20

The fair value of the stock options issued was estimated using the Black-Scholes 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
Forfeiture rate (%)	5
Expected dividend yield (%)	-

13. Supplemental Cash Flow Information

For the three months ended:	March 31, 2011	March 31, 2010
Change in non-cash working capital:		
Accounts receivable	$ 1,113,279	$ (72,751)
Prepaid expenses and deposits	(5,344,610)	6,717
Accounts payable, accrued liabilities and subscription receipts payable	86,880,815	(163,025)
Movements in exchange rates	8,231	-
	82,657,715	(229,059)
The change in non-cash working capital has been allocated to the following activities:		
Operating	(213,601)	278,576
Financing	84,373,160	-
Investing	(1,501,844)	(507,635)
	$ 82,657,715	$ (229,059)
Supplementary cash flow information:		
Interest paid	$ -	$ 41,063

14. Financing Expenses

For the three months ended:	March 31, 2011	March 31, 2010
Accretion of decommissioning obligations	$ 3,108	$ 2,500
Interest expense	-	43,911
	$ 3,108	$ 46,411

15. Segmented Information

For the three months ended:	March 31, 2011	March 31, 2010
Petroleum and natural gas revenue		
Canada	$ 478,117	$ 861,347
Turkey	84,015	-
	562,132	861,347
Net loss		
Canada	(2,788,669)	(1,707,111)
Turkey	(1,473,340)	-
	(4,262,009)	(1,707,111)
Capital expenditures		
Canada	(58,427)	394,177
Turkey	4,256,389	-
	4,197,962	394,177
Total assets		
Canada	112,634,866	12,035,104
Turkey	9,196,364	-
	$ 121,831,230	$ 12,035,104

16. Capital Management

The Company's objective when managing capital is to maintain a flexible capital structure which allows it to execute its growth strategy through strategic acquisitions and expenditures on exploration and development activities while maintaining a strong financial position. The Company's capital structure includes working capital, bank loans and shareholders' equity. At this point in time, total capital resources available include working capital plus the unused portion of the Company's credit line.

The Company's capital expenditure 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 March 31, 2011, the Company's adjusted working capital ratio was in excess of 5 to 1 excluding restricted cash and subscription receipts payable.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. The Company anticipates expanding its bank loan capacity in 2011 with the expansion in Turkey and the increased borrowing base that is expected. In the future, if the Company borrows on its bank loan facility for capital expansion, the Company will monitor capital based on the ratio of net debt to annualized funds from operations. This ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant.

17. Related Party Transactions

(a) During the three months ended March 31, 2011, the Company incurred legal fees of $471,060 (March 31, 2010 - $306,700) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three months ended March 31, 2011, the Company incurred $nil (March 31, 2010 - $23,600) 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.

18. Commitments

On September 1, 2010, the Company entered into a farm-in agreement on lands held under the AME-GYP farm-in agreement. The farm-in allows Valeura to earn varying working interests in a production lease and one group 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 the 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 ($7.4 million was spent as of March 31, 2011). 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.

As previously discussed in note 6 above, $1,377,650 had been spent on the Rubai licenses in southeast Turkey. Although these licenses expired, the expenditures will count towards earning on the remaining lands.

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.

19. Subsequent Events

On June 8, 2011, Valeura closed its previously announced TBNG-PTI asset acquisition, with an effective date of October 1, 2010. The Company purchased assets comprised of natural gas production and 588,719 net acres of land in the Thrace and Anatolian basins of Turkey. The total purchase price paid for these assets was US$57,307,309 (excluding VAT) which includes adjustments from the effective date of October 1, 2010 to March 31, 2011 and the deposit of US$3,250,000 previously paid. There will be a further purchase price adjustment for the period from April 1, 2011 to June 8, 2011.

The transfer of registered ownership of the assets to Valeura's subsidiary in Turkey is subject to the approval of the GDPA, a process that is anticipated to take three to six months. Pending GDPA approval, Valeura's subsidiary will retain the economic rights to the assets pursuant to a net profit interest agreement, effective April 1, 2011.

Upon closing of the TBNG-PTI asset acquisition, the Company received funds out of escrow from its February 2011 private placement of subscription receipts. Total gross proceeds were $86.25 million. Valeura issued a total of 265,384,350 subscription receipts at a price of $0.325 per subscription receipt. The underwriters received a fee equal to 5% of the gross proceeds raised, of which $1,509,373 was paid at closing on February 28, 2011 and the remainder of $2,803,122 was 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.

Upon conversion of the subscription receipts to common shares, the proforma common shares, options and warrants outstanding are:

	December 31, 2010	Additions	Proforma As at March 31, 2011
Common Shares	198,677,125	265,384,350	464,061,475
Stock Options	10,685,000	140,000	10,825,000
Performance warrants	27,967,500	-	27,967,500
Warrants	-	132,692,175	132,692,175
Diluted	237,329,625	398,216,525	635,546,150

20. Reconciliation of Equity and Loss from previous GAAP to IFRS

These interim consolidated financial statements are the Company's first under IFRS.

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

- Deemed cost exemption for full cost oil and gas entities whereby exploration and evaluation assets were classified from the full cost pool to intangible E&E assets at the amount that was recorded under previous GAAP and the remaining full cost pool was allocated to the development assets and components pro-rata using reserve values.
- Decommissioning obligation exemption that allows any changes in decommissioning obligations on transition to IFRS to be adjusted through opening retained earnings.
- Stock-based compensation exemption that allows a company to only have to evaluate share based compensation awards that were unvested as of the date of transition and that were issued subsequent to November 7, 2002.
- Business combination exemption that allows a company to not have to restate any business combinations that occurred prior to the date of transition.

The accounting policies in note 3 have been applied in preparing the interim consolidated financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the financial statements for the year ended December 31, 2010 and the preparation of the opening IFRS balance sheet at January 1, 2010, the Company's date of transition to IFRS.

In preparing its opening IFRS balance sheet, comparative information for the three months ended March 31, 2010 and financial statements for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with former previous GAAP. An explanation of how the transition from former previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes accompanying the tables.

Reconciliation of the Consolidated Statement of Financial Position at the date of transition to IFRS – January 1, 2010:

	Previous GAAP (December 31, 2009)	Effect of transition to IFRS	Note	IFRS (January 1, 2010)
Assets				
Current Assets				
Accounts receivable	$ 497,337	$ -		$ 497,337
Prepaid expenses and deposits	89,938	-		89,938
	587,275	-		587,275
Property, plant and equipment	11,415,791	-		11,415,791
Deferred taxes	139,200	-	A	139,200
Deferred transaction costs	200,000	(200,000)	L	-
	$ 12,342,266	$ (200,000)		$ 12,142,266
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 2,078,396	$ -		$ 2,078,396
Credit facilities	3,759,592	-		3,759,592
	5,837,988	-		5,837,988
Decommissioning obligations	186,500	67,400	F	253,900
Deferred premium on flow-through shares	-	58,500	G	58,500
Shareholders' Equity				
Share capital	10,795,576	280,704	G	11,076,280
Contributed surplus	134,312	30,275	H	164,587
Deficit	(4,612,110)	(636,879)		(5,248,989)
	6,317,778	(325,900)		5,991,878
	$ 12,342,266	$ (200,000)		$ 12,142,266

Reconciliation of the Consolidated Statement of Financial Position as at March 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Assets				
Current Assets				
Accounts receivable	$ 570,088	$ -		$ 570,088
Prepaid expenses and deposits	83,221	-		83,221
	653,309	-		653,309
Property, plant and equipment	11,098,479	283,316	D,F	11,381,795
	$ 11,751,788	$ 283,316		$ 12,035,104
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 1,915,371	$ -		$ 1,915,371
Credit facilities	4,730,345	-		4,730,345
	6,645,716	-		6,645,716
Decommissioning obligations	190,000	66,400	F	256,400
Shareholders' Equity				
Share capital	10,656,376	419,904	G	11,076,280
Contributed surplus	616,632	396,176	H	1,012,808
Deficit	(6,356,936)	(599,164)		(6,956,100)
	4,916,072	216,916		5,132,988
	$ 11,751,788	$ 283,316		$ 12,035,104

Reconciliation of the Consolidated Statement of Financial Position at the end of the last reporting year under previous GAAP – December 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Assets				
Current Assets				
Cash and cash equivalents	$ 19,460,311	$ -		$ 19,460,311
Accounts receivable	2,264,592	-		2,264,592
Prepaid expenses and deposits	228,763	-		228,763
	21,953,666	-		21,953,666
Exploration and evaluation	-	5,389,420	B,E	5,389,420
Property, plant and equipment	16,547,844	(5,858,675)	B,C,D,F	10,689,169
Goodwill	257,313	(122,818)	C,K	134,495
	$ 38,758,823	$ (592,073)		$ 38,166,750
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 2,256,699	$ -		$ 2,256,699
Decommissioning obligations	487,914	107,080	F	594,994
Shareholders' Equity				
Share capital	46,554,120	419,904	G	46,974,024
Contributed surplus	3,207,196	1,806,761	H	5,013,957
Accumulated other comprehensive income	-	203	J	203
Deficit	(13,747,106)	(2,926,021)		(16,673,127)
	36,014,210	(699,153)		35,315,057
	$ 38,758,823	$ (592,073)		$ 38,166,750

Reconciliation of the Consolidated Statement of Loss for the period ended March 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Revenue				
Petroleum and natural gas sales	$ 861,347	$ -		$ 861,347
Royalties	(73,505)	-		(73,505)
	787,842	-		787,842
Expenses				
Production	389,965	-		389,965
Transportation	21,936	-		21,936
General and administrative	273,085	19,511	I	292,596
Transaction costs	586,951	(200,000)	L	386,951
Interest	43,911	-		43,911
Financing	3,500	(1,000)	F	2,500
Stock-based compensation	482,320	365,901	H	848,221
Exploration and evaluation	-	95,795	E	95,795
Depletion and depreciation	731,000	(398,622)	D	332,378
	2,532,668	(118,415)		2,414,253
Loss before income taxes	(1,744,826)	118,415		(1,626,411)
Deferred tax expense	-	(80,700)	G	(80,700)
Net loss and comprehensive loss	$ (1,744,826)	$ 37,715		$ (1,707,111)
Net loss per share				
Basic	$ (0.03)			$ (0.03)
Diluted	$ (0.03)			$ (0.03)

Reconciliation of the Consolidated Statement of Loss for the year ended December 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Revenue				
Petroleum and natural gas sales	$ 3,234,538	$ -		$ 3,234,538
Royalties	(280,187)	-		(280,187)
Other income	118,333	-		118,333
	3,072,684	-		3,072,684
Expenses				
Production	1,662,365	-		1,662,365
Transportation	81,205	-		81,205
General and administrative	3,215,639	80,141	I	3,295,780
Transaction costs	1,124,485	(200,000)	L	924,485
Interest	51,243	-		51,243
Foreign exchange loss	76,522	203	J	76,725
Financing	21,573	(10,431)	F	11,142
Stock-based compensation	2,960,948	1,778,050	H	4,738,998
Exploration and evaluation	-	699,919	E	699,919
Depletion and depreciation	3,013,700	(139,440)	C,D	2,874,260
	12,207,680	2,208,442		14,416,122
Loss before income taxes	(9,134,996)	(2,208,442)		(11,343,438)
Deferred tax expense	-	(80,700)	G	(80,700)
Net loss	$ (9,134,996)	$ (2,289,142)		$ (11,424,138)
Other comprehensive income				
Currency translation adjustments	-	203		203
Comprehensive loss	$ (9,134,996)	$ (2,288,939)		$ (11,423,935)
Net loss per share				
Basic	$ (0.06)			$ (0.07)
Diluted	$ (0.06)			$ (0.07)

Reconciliation of the Cash Flow Statement for the period ended March 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	$ (1,744,826)	$ 37,715		$ (1,707,111)
Adjustments:				
Depletion and depreciation	731,000	(398,622)	D	332,378
Financing expenses	3,500	(1,000)	F	2,500
Exploration and evaluation expenses	-	95,795	E	95,795
Deferred transaction costs	200,000	(200,000)	L	-
Stock-based compensation	482,320	365,901	H	848,221
Deferred tax expense	-	80,700	G	80,700
	(328,006)	(19,511)		(347,517)
Change in non-cash working capital	278,576	-		278,576
	(49,430)	(19,511)		(68,941)
Financing activities:				
Net change in credit facility	970,753	-		970,753
	970,753	-		970,753
Investing activities:				
Property and equipment expenditures	(413,688)	115,306	I	(298,382)
Exploration and evaluation assets	-	(95,795)	B,E	(95,795)
Change in non-cash working capital	(507,635)	-		(507,635)
	(921,323)	19,511		(901,812)
Change in cash and cash equivalents	-	-		-
Cash and cash equivalents, beginning of period	-	-		-
Cash and cash equivalents, end of period	$ -	$ -		$ -

Reconciliation of the Cash Flow Statement for the year ended December 31, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	$ (9,134,996)	$ (2,288,939)		$ (11,424,138)
Adjustments:				
Depletion, and depreciation	3,013,700	(139,440)	C,D	2,874,260
Financing expenses	21,573	(10,431)	F	11,142
Exploration and evaluation expenses	-	699,919	E	699,919
Stock-based compensation	2,960,948	1,778,050	H	4,738,998
Deferred transaction costs	200,000	(200,000)	L	-
Shares issued for services	162,970	-		162,970
Unrealized foreign exchange loss	76,522	-		76,725
Deferred tax expense	-	80,700	G	80,700
Decommissioning obligation settled	(33,750)	-		(33,750)
	(2,733,033)	(80,141)		(2,813,174)
Change in non-cash working capital	(164,609)	-		(164,609)
	(2,897,642)	(80,141)		(2,977,783)
Financing activities:				
Issuance of shares, net of share issue costs	29,272,973	-		29,272,973
Net change in credit facility	(3,759,592)	-		(3,759,592)
	25,513,381	-		25,513,381
Investing activities:				
Cash received on acquisition	6,043,902	-		6,043,902
Property and equipment expenditures	(7,007,494)	6,169,480	I	(838,014)
Exploration and evaluation assets	-	(6,089,339)	B,E	(6,089,339)
Change in non-cash working capital	(2,169,186)	-		(2,169,186)
	(3,132,778)	80,141		(3,052,637)
Foreign exchange on cash held in foreign currencies	(22,650)	-		(22,650)
Net change in cash and cash equivalents	19,460,311	-		19,460,311
Cash and cash equivalents, beginning of period	-	-		-
Cash and cash equivalents, end of period	$ 19,460,311	$ -		$ 19,460,311

Impact of Transition to IFRS on 2010 Results:

(A) Under IFRS, all deferred tax assets and liabilities are classified as long-term. Under previous GAAP, deferred tax assets and liabilities were presented according to the classification of the underlying asset or liability that created the difference in the deferred tax amount.

(B) Exploration and Evaluation assets – As required under IFRS 6, Valeura reclassified $6,089,339 at December 31, 2010 (March 31, 2010 - $95,795).

(C) Under IFRS, impairment tests for PP&E are performed at a CGU level as opposed to the entire Company's PP&E balance being subjected to a full cost ceiling test under previous GAAP. Impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. The recoverable amount is determined using the greater of the fair value less costs to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs, and the value-in-use.

As a result of decreased forward natural gas prices in Canada which impacted the fair value less costs to sell derived from the Company's Canadian reserves, Valeura recognized an impairment of $1,478,228 for the year ended December 31, 2010. This resulted in a reduction of PP&E ($1,321,234) and goodwill ($156,994) with the offset charged to depletion and depreciation expense.

(D) Depletion and depreciation expense – Under IFRS, Valeura has chosen to calculate depletion expense based on proved plus probable reserves instead of proved reserves under previous GAAP. This resulted in a reduction of depletion and depreciation expense of $139,440 in 2010 (March 31, 2010 - $398,622).

(E) Exploration expense – Under IFRS, Valeura has chosen to recognize an exploration and evaluation expense when a CGU is impaired. Valeura recognized $699,919 in exploration and evaluation expense for the year ended December 31, 2010 (March 31, 2010 - $95,795).

(F) Decommissioning obligations – Under previous GAAP, Valeura's decommissioning obligations were discounted based on a credit adjusted risk-free rate of 8% at December 31, 2009. Under IFRS, the Company is required to revalue its obligation at each balance sheet date using a current liability-specific discount rate. At transition, Valeura revalued the obligation based on a risk-free rate of 4% resulting in a $67,400 increase to the liability with the offset charged to retained earnings.

As a result of the change in the discount rate applied, accretion of decommissioning obligation expense (included in financing expense) decreased by $10,431 for the year ended December 31, 2010 (March 31, 2010 - $1,000).

(G) Under previous GAAP, the deferred tax liability associated with the renouncement of tax deductions from the issuance of flow through shares was recorded as a reduction in share capital at the time of renouncement. Under IFRS, the difference between the deferred tax liability associated with the renouncement of the tax deductions and the premium price received on the issuance of flow through shares over the market value of the Company's common shares at the time of issue is recorded as a deferred tax expense as the expenditures are incurred. This deferred tax expense effectively represents the net loss on the distribution of the tax deductions to investors. The transitional adjustment resulted in an increase of $280,704 to share capital and $58,500 to flow-through share premium payable with a resulting offset being charged to retained earnings.

For the year ended December 31, 2010, a deferred tax expense of $80,700 (March 31, 2010 - $80,700) was recognized as a result of changes in the temporary difference between the net book value and the tax basis of the assets and liabilities due to other adjustments discussed.

(H) Under previous GAAP, Valeura expensed stock-based compensation on a straight-line basis. Under IFRS, share-based payments are expensed based on a graded vesting schedule. Valeura also incorporated a forfeiture multiplier rather than accounting for forfeitures as they occur as currently practiced under previous GAAP. The adjustment to contributed surplus to account for the graded vesting and forfeitures was an increase of $30,275 with the offset being charged to retained earnings. This also resulted in an increase to stock-based compensation expense for the year ended December 31, 2010 of $1,778,050 (March 31, 201 - $365,901).

(I) Under IFRS, the criteria for which general and administrative expenses ("G&A") can be capitalized is different than previous GAAP and as a result a greater portion of G&A costs have been expensed. This resulted in an additional $80,141 of G&A expenses for the year ended December 31, 2010 (March 31, 2010 - $19,511).

(J) Foreign Currency Translation – Under Previous GAAP, Valeura concluded that the functional currency of its foreign operating subsidiaries is the Canadian dollar. As a result of differences in the guidance for functional currency determination, Valeura has concluded that under IFRS the functional currency of its foreign operating subsidiaries will be their respective local currencies. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries are recorded through other comprehensive income and do not impact net income until a disposal or partial disposal of a foreign operation. In addition, the capital asset accounts of Valeura's foreign operating subsidiaries are translated to Canadian dollars at the foreign exchange rates in effect at the balance sheet date whereas under Previous GAAP, these capital asset accounts were translated at historical rates of exchange. The translation of all balances denominated in foreign currencies resulted in an adjustment at each period from net earnings to other comprehensive income.

(K) Goodwill – Under Previous GAAP Valeura tested for impairment at the level of a reporting unit, which for the year ended December 31, 2010 and prior periods related to assets in Canada. Under IFRS the testing of goodwill is performed by allocating the goodwill where possible to the CGU's upon which the goodwill value is attributable. As a result of the impairment testing under IFRS for the year ended December 31, 2010 the balance of goodwill was identified as being impaired and was charged to earnings in that year. The transition to IFRS therefore resulted in an adjustment to goodwill and a decrease in net earnings of $156,994. Goodwill was also increased by $22,499 on conversion to IFRS due to using a lower discount rate of 4% on the decommissioning obligation estimate for the PanWestern acquisition. The net goodwill adjustment is $134,495.

(L) Deferred transaction costs – Under previous GAAP, Valeura recorded $200,000 of deferred transaction costs at December 31, 2009. On conversion to IFRS, the deferred transaction costs were recorded through retained earnings at January 1, 2010. As a result, transaction costs in both Q1 2010 and for the year ended December 31, 2010 are reduced by $200,000.