**Interim Consolidated Financial Statements (unaudited)**

**Three and six months ended June 30, 2011 and 2010**

.

valeura energy inc.

**Consolidated Statements of Financial Position**

| (stated in Canadian Dollars, unaudited) | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **$ 32,504,845** | $ 19,460,311 |
| Accounts receivable | **8,705,998** | 2,264,592 |
| Prepaid expenses and deposits | **250,994** | 228,763 |
| | **41,461,837** | 21,953,666 |
| Exploration and evaluation assets *(note 5, 7)* | **41,950,247** | 5,389,420 |
| Property, plant and equipment *(note 6, 7)* | **44,296,939** | 10,689,169 |
| Goodwill *(note 7)* | **134,495** | 134,495 |
| | **$ 127,843,518** | $ 38,166,750 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **$ 3,572,717** | $ 2,256,699 |
| Income taxes payable | **788,045** | - |
| | **4,360,762** | 2,256,699 |
| Decommissioning obligations *(note 9)* | **6,429,557** | 594,994 |
| Deferred taxes | **9,627,871** | - |
| Shareholders' Equity | | |
| Share capital *(note 10)* | **122,068,898** | 46,974,024 |
| Warrants *(note 10)* | **5,971,148** | - |
| Contributed surplus | **6,255,857** | 5,013,957 |
| Accumulated other comprehensive income (loss) | **(1,576,433)** | 203 |
| Deficit | **(25,294,142)** | (16,673,127) |
| | **107,425,328** | 35,315,057 |
| | **$ 127,843,518** | $ 38,166,750 |

See accompanying notes to the consolidated financial statements

See commitments *(note 16)*

**Consolidated Statements of Loss and Comprehensive Loss**
**For the three and six months ended June 30, 2011 and 2010**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (stated in Canadian Dollars, unaudited) | **June 30, 2011** | June 30, 2010 | **June 30, 2011** | June 30, 2010 |
| | | *(note 17)* | | *(note 17)* |
| **Revenue** | | | | |
| Petroleum and natural gas sales | **$ 2,707,193** | $ 892,878 | **$ 3,269,325** | $ 1,754,225 |
| Royalties | **(293,904)** | (119,195) | **(350,184)** | (192,700) |
| Other Income | **141,994** | 27,690 | **183,924** | 27,690 |
| | **2,555,283** | 801,373 | **3,103,065** | 1,589,215 |
| **Expenses** | | | | |
| Production | **841,078** | 462,700 | **1,206,512** | 852,665 |
| Transportation | **10,458** | 23,985 | **18,027** | 45,921 |
| General and administrative | **1,720,289** | 823,382 | **3,208,504** | 1,115,978 |
| Transaction costs *(note 4)* | **1,326,425** | 434,057 | **1,937,314** | 821,008 |
| Financing *(note 12)* | **10,754** | 10,006 | **13,862** | 56,417 |
| Foreign exchange (gain) loss | **(158,667)** | - | **(44,663)** | - |
| Stock-based compensation | **627,244** | 1,830,459 | **1,241,900** | 2,678,680 |
| Exploration and evaluation *(note 5, 7)* | **902,470** | - | **2,280,120** | 95,795 |
| Depletion and depreciation *(note 6, 7)* | **1,652,325** | 411,258 | **1,880,591** | 743,636 |
| | **6,932,376** | 3,995,847 | **11,742,167** | 6,410,100 |
| Loss for the period before income taxes | **(4,377,093)** | (3,194,474) | **(8,639,102)** | (4,820,885) |
| Income taxes | | | | |
| Deferred expense (recovery) | **(297,360)** | - | **(297,360)** | 80,700 |
| Current | **279,273** | - | **279,273** | - |
| | **(18,087)** | | **(18,087)** | |
| **Net loss** | **(4,359,006)** | (3,194,474) | **(8,621,015)** | (4,901,585) |
| Other comprehensive loss | | | | |
| Currency translation adjustments | **(1,576,323)** | - | **(1,576,636)** | - |
| **Comprehensive loss** | **(5,935,329)** | (3,194,474) | **(10,197,651)** | (4,901,585) |
| Net loss per share *(note 10(c))* | | | | |
| Basic | **$ (0.02)** | $ (0.02) | **$ (0.04)** | $ (0.04) |
| Diluted | **$ (0.02)** | $ (0.02) | **$ (0.04)** | $ (0.04) |

See accompanying notes to the consolidated financial statements

**Consolidated Statements of Cash Flows**
**For the three and six months ended June 30, 2011 and 2010**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (stated in Canadian Dollars, unaudited) | **June 30, 2011** | June 30, 2010 | **June 30, 2011** | June 30, 2010 |
| Cash was provided by (used in): | | | | |
| **Operating activities:** | | | | |
| Net loss for the period | **$ (4,359,006)** | $ (3,194,474) | **$ (8,621,015)** | $ (4,901,585) |
| Items not involving cash: | | | | |
| Depletion and depreciation | **1,652,325** | 411,258 | **1,880,591** | 743,636 |
| Exploration and evaluation expense *(note 5)* | **902,470** | - | **2,280,120** | 95,795 |
| Stock-based compensation | **627,244** | 1,830,459 | **1,241,900** | 2,678,680 |
| Financing expenses *(note 12)* | **10,754** | 2,674 | **13,862** | 5,174 |
| Shares issued for services | **-** | 64,410 | **-** | 64,410 |
| Unrealized foreign exchange gain | **(158,667)** | - | **(44,663)** | - |
| Deferred tax expense (recovery) | **(297,360)** | - | **(297,360)** | 80,700 |
| Decommissioning costs incurred | **(54,124)** | - | **(54,124)** | - |
| | **(1,676,364)** | (885,673) | **(3,600,689)** | (1,233,190) |
| Change in non-cash working capital *(note 11)* | **(5,575,820)** | (415,176) | **(5,789,421)** | (136,600) |
| | **(7,252,184)** | (1,300,849) | **(9,390,110)** | (1,369,790) |
| **Financing activities:** | | | | |
| Issuance of units, net of issue costs *(note 10(b))* | **82,942,776** | 29,272,973 | **81,066,022** | 29,272,973 |
| Net change in credit facility | **-** | (4,730,345) | **-** | (3,759,592) |
| Change in non-cash working capital *(note 11)* | **-** | 139,834 | **-** | 139,834 |
| | **82,942,776** | 24,682,462 | **81,066,022** | 25,653,215 |
| **Investing activities:** | | | | |
| Cash received on business combination *(note 4)* | **-** | 6,043,902 | **-** | 6,043,902 |
| Property and equipment expenditures | **(113,133)** | (449,670) | **(54,705)** | (748,052) |
| Acquisition of TBNG-PTI assets *(note 4)* | **(53,724,623)** | - | **(53,724,623)** | - |
| Acquisition of Edirne assets *(note 4)* | **-** | - | **(1,946,450)** | - |
| Exploration and evaluation expenditures | **(1,812,850)** | - | **(4,122,790)** | (95,795) |
| Change in non-cash working capital *(note 11)* | **2,720,329** | (428,323) | **1,218,485** | (935,958) |
| | **(52,930,277)** | 5,165,909 | **(58,630,083)** | 4,264,097 |
| Foreign exchange on cash held in foreign currencies | **7,250** | - | **(1,295)** | - |
| | | | | |
| **Net change in cash and cash equivalents** | **22,767,565** | 28,547,522 | **13,044,534** | 28,547,522 |
| **Cash and cash equivalents, beginning of period** | **9,737,280** | - | **19,460,311** | - |
| **Cash and cash equivalents, end of period** | **$ 32,504,845** | $ 28,547,522 | **$ 32,504,845** | $ 28,547,522 |

**Consolidated Statements of Changes in Shareholders’ Equity**
**For the six months ended June 30, 2011 and 2010**

| (stated in Canadian Dollars, unaudited) | Number of Shares | Share Capital | Share Purchase Warrants | Contributed Surplus | Deficit | AOCI | Total Shareholders’ Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2011 | 198,677,125 | $ 46,974,024 | $ - | $ 5,013,957 | $(16,673,127) | $ 203 | $ 35,315,057 |
| Issuance of units pursuant to private placement | 265,384,350 | 75,094,874 | 5,971,148 | - | - | - | 81,066,022 |
| Net loss for the period | - | - | - | - | (8,621,015) | - | (8,621,015) |
| Currency translation adjustments | - | - | - | - | - | (1,576,636) | (1,576,636) |
| Stock-based compensation | - | - | - | 1,241,900 | - | - | 1,241,900 |
| **Balance, June 30, 2011** | **464,061,475** | **$122,068,898** | **$5,971,148** | **$ 6,255,857** | **$(25,294,142)** | **$ (1,576,433)** | **$107,425,328** |

| (stated in Canadian Dollars, unaudited) | Number of Shares | Share Capital | Share Purchase Warrants | Contributed Surplus | Deficit | AOCI | Total Shareholders’ Equity |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2010 | 67,285,829 | $ 11,076,280 | $ - | $ 164,587 | $ (5,248,989) | $ - | $ 5,991,878 |
| Equity adjustment pursuant to Plan of Arrangement | 49,941,792 | 7,285,761 | - | 80,617 | - | - | 7,366,378 |
| Issued pursuant to private placement | 30,000,000 | 6,000,000 | - | - | - | - | 6,000,000 |
| Issued pursuant to special warrant financing | 51,100,000 | 22,513,423 | - | - | - | - | 22,513,423 |
| Net loss for the period | - | - | - | - | (4,901,585) | - | (4,901,585) |
| Stock-based compensation | - | - | - | 2,678,680 | - | - | 2,678,680 |
| **Balance, June 30, 2010** | **198,327,621** | **$ 46,875,464** | **$ -** | **$ 2,923,884** | **$(10,150,574)** | **$ -** | **$ 39,648,774** |

See accompanying notes to the consolidated financial statements

## 1. Reporting Entity

Valeura Energy Inc. ("Valeura" or the "Company") and its subsidiaries are 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 region. Valeura's shares are traded on the TSX Venture Exchange under the trading symbol VLE.

## 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"). IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied to these interim consolidated financial statements.

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 17. The note includes reconciliations of equity and net loss for comparative periods from former Canadian GAAP ("previous GAAP") to IFRS.

These interim consolidated financial statements follow the same accounting policies and method of computation as shown in note 3 of the Company's interim consolidated financial statements for the three months ended March 31, 2011. These are the accounting policies 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.

The consolidated financial statements were authorized for issue by the Board of Directors on August 24, 2011.

### (b) Basis of measurement

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

The methods used to measure fair values are discussed in note 3.

### (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 ("OCI") and are held within accumulated other comprehensive income ("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. 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 (“PP&E”) and intangible exploration and evaluation (“E&E”) 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, accounts receivable and accounts payable.*

The fair value of cash and cash equivalents, 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 June 30, 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).

## 4. 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 $434,057 and $821,008, respectively, were expensed for the three and six months ended June 30, 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 six months ended June 30, 2010 would have been as follows:

| | | As Stated | | PanWestern Prior to Acquisition | | Proforma |
|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | $ | 1,754,225 | $ | 163,431 | $ | 1,917,656 |
| Net loss | $ | (4,901,585) | $ | (101,337) | $ | (5,002,922) |

### (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 June 30, 2011:

| | | |
|---|---|---|
| Natural gas sales | $ | 982,331 |
| Royalties | | (122,704) |
| Production expenses | | (395,970) |
| | $ | 463,657 |

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 six months ended June 30, 2011 would have been as follows:

| Six months ended June 30, 2011 | | As Stated | | Edirne Assets Prior to Acquisition | | Proforma |
|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | $ | 3,269,325 | $ | 836,311 | $ | 4,105,636 |
| Net loss | $ | (8,621,015) | $ | (45,344) | $ | (8,666,359) |

**(c) Acquisition of TBNG-PTI Assets**

On June 8, 2011 Valeura announced completion of the TBNG-PTI asset acquisition in Turkey. The purchase price allocation is as follows:

**Consideration**

| | | |
|---|---|---|
| Cash | $ | 53,724,623 |

**Purchase price allocation**

| | | |
|---|---|---|
| Property, plant and equipment | $ | 34,558,872 |
| Decommissioning obligations | | (5,666,245) |
| Exploration and evaluation assets | | 35,037,080 |
| Deferred taxes | | (10,205,084) |
| | $ | 53,724,623 |

The following amounts for the TBNG-PTI assets are Included in the consolidated statements of loss and comprehensive loss from closing to June 30, 2011:

| | | |
|---|---|---|
| Natural gas sales | $ | 1,266,465 |
| Royalties | | (170,973) |
| Production expenses | | (169,374) |
| | $ | 926,118 |

If the TBNG assets had been acquired on January 1, 2011, the consolidated petroleum and natural gas sales and net loss figures for Valeura for six months ended June 30, 2011 would have been as follows:

| Six months ended June 30, 2011 | | As Stated | | TBNG Assets Prior to Acquisition | | Proforma |
|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | $ | 3,269,325 | $ | 11,143,387 | $ | 14,412,712 |
| Net loss | $ | (8,621,015) | $ | 3,351,876 | $ | (5,269,139) |

Transaction costs of $1,085,683 and $1,696,572, respectively, were expensed for the three and six months ended June, 2011 pertaining to both the Edirne and TBNG-PTI asset acquisitions.

The initial measurement period for business combinations and asset acquisitions is a maximum of one year from the closing date. The fair value of identifiable assets acquired and liabilities assumed on both the Edirne and TBNG-PTI purchase price allocations are preliminary and subject to changes which may be material on the finalization of fair values.

## 5. 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 17(E))* | | (699,919) |
| Balance, December 31, 2010 | | 5,389,420 |
| Edirne asset acquisition *(note 4)* | | 666,300 |
| TBNG asset acquisition *(note 4)* | | 35,037,080 |
| Additions | | 4,122,790 |
| Transfer to property, plant and equipment | | - |
| Transfer to exploration and evaluation expense | | (2,280,120) |
| Effects of movements in exchange rates | | (985,223) |
| **Balance, June 30, 2011** | **$** | **41,950,247** |

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 Cash Generating Units ("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.

### (c) Turkey exploration and evaluation assets

On June 8, 2011, the Company closed the TBNG-PTI acquisition and assigned a fair value of $35,037,080 to exploration and evaluation assets and $20,513 was recorded to exploration and evaluation expense in Q2 2011 on TBNG-PTI lands.

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 June 30, 2011, Valeura had invested $2,259,607 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 by recording an E&E expense in the amount of $2,259,607.

The ultimate recovery of property and equipment costs in Turkey is dependent upon the Company fulfilling its minimum obligation to earn an interest in the AME-GYP lands and upon the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands. Uncertainties affect the recoverability of these costs as the recovery of the costs outlined above is dependent upon the Company obtaining government approvals, obtaining and maintaining licenses in good standing and achieving commercial production.

## 6. Property, Plant and Equipment

| Cost or deemed cost | Total |
|---|---|
| Balance, January 1, 2010 | $ 11,415,791 |
| Additions | 838,014 |
| Corporate acquisition *(note 4)* | 1,083,390 |
| Change in decommissioning obligations *(note 9)* | 39,485 |
| Capitalized stock-based compensation | 29,755 |
| Balance, December 31, 2010 | 13,406,435 |
| Edirne asset acquisition *(note 4)* | 1,594,370 |
| TBNG asset acquisition *(note 4)* | 34,558,872 |
| Additions | 54,705 |
| Change in decommissioning obligations *(note 9)* | 61,387 |
| Effects of movements in exchange rates | (806,567) |
| **Balance, June 30, 2011** | **$ 48,869,202** |

| Accumulated depletion and depreciation | Total |
|---|---|
| Balance, January 1, 2010 | $ - |
| Depletion and depreciation expense | 1,396,032 |
| Impairment *(note 17(C))* | 1,321,234 |
| Balance, December 31, 2010 | 2,717,266 |
| Depletion and depreciation expense | 1,880,591 |
| Effects of movements in exchange rates | (25,594) |
| **Balance, June 30, 2011** | **$ 4,572,263** |

| Net book value | Total |
|---|---|
| Balance, January 1, 2010 | $ 11,415,791 |
| Balance, December 31, 2010 | $ 10,689,169 |
| **Balance, June 30, 2011** | **$ 44,296,939** |

**(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**

For the purposes of calculating depletion, 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.

**(d) Turkey**

The Company closed the Edirne asset acquisition in Turkey (see note 4) 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.

The Company also closed the TBNG asset acquisition in Turkey (see note 4) acquiring developed and producing assets in the amount of $34,558,872, including $5,666,245 of non-cash decommissioning obligations. Estimated future development costs associated with estimated proved plus probable reserves in shallow gas reservoirs in the amount of $9,179,446 have been included the depletion calculation for the TBNG assets.

## 7. 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 17(K))* | 156,994 |
| Impairment of PP&E assets *(note 6)* | 1,321,234 |
| Impairment of E&E assets *(note 5)* | 699,919 |
| Cumulative Impairment, December 31, 2010 | 2,178,147 |
| Impairment of E&E assets *(note 5)* | 2,280,120 |
| **Cumulative impairment, June 30, 2011** | **$ 4,458,267** |

## 8. Credit Facilities

On June 30, 2011, the Company's credit facilities with a Canadian chartered bank consisted of a $1,900,000 revolving operating demand loan with an interest rate of bank prime plus 1.25% and a $1,000,000 development demand loan with an interest rate of bank prime plus 1.50%. The credit facilities are secured by a fixed and floating charge debenture in the amount of $10,000,000 and a general security agreement over all the assets of Valeura and its subsidiaries. As at June 30, 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 facilities are scheduled for review on or before December 31, 2011.

## 9. Decommissioning Obligations

| | Six months ended June 30, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Decommissioning obligations, beginning of period | **$ 594,994** | $ 253,900 |
| Obligations incurred on acquisitions *(note 4)* | **5,980,465** | 324,217 |
| Obligations incurred | **26,360** | 39,485 |
| Obligations settled | **(54,124)** | (33,750) |
| Change in discount rates | **35,027** | - |
| Accretion of decommissioning liabilities *(note 12)* | **13,862** | 11,142 |
| Effects of movements in exchange rates | **(167,027)** | - |
| Decommissioning obligations, end of period | **$ 6,429,557** | $ 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.

## 10. Share Capital

### (a) Authorized

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

### (b) Private placement 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 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. Net proceeds from the private placement after share issuance costs were $81,066,022.

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 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 warrants were valued at $5,971,148 or $0.045 per warrant as part of the $0.325 per unit subscription. The fair value of the warrants was estimated using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Fair value of warrants granted ($/warrant) | 0.045 |
| Risk-free interest rate (%) | 2.2 |
| Expected life (years) | 5.0 |
| Expected volatility (%) | 100 |
| Expected forfeiture (%) | 0 |
| Expected dividend yield (%) | - |

Upon conversion of the subscription receipts, the common shares and share purchase warrants outstanding are:

| | December 31, 2010 | Additions | June 30, 2011 |
|---|---|---|---|
| Common Shares | 198,677,125 | 265,384,350 | 464,061,475 |
| Share Purchase Warrants | - | 132,692,175 | 132,692,175 |
| | 198,677,125 | 398,076,525 | 596,753,650 |

**(c) Per share amounts**

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and six months ended June 30, 2011 is 262,835,979 and 230,933,786 respectively (three and six months ended June 30, 2010 – 166,592,079 and 117,213,281, respectively). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

**(d) Performance warrants**

Valeura has issued the following performance warrants to directors, officers and certain employees 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 June 30, 2011** | **27,967,500** | **$ 0.20** |
| **Exercisable at June 30, 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 June 30, 2011:

| Exercise prices | Outstanding at June 30, 2011 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at June 30, 2011 | Weighted average exercise price |
|---|---|---|---|---|---|
| $0.20 | 27,967,500 | 3.5 | $ 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 ($/warrant) | 0.15 |
| Risk-free interest rate (%) | 2.5 |
| Expected life (years) | 4.5 |
| Expected volatility (%) | 110 |
| Expected forfeiture (%) | 5 |
| Expected dividend yield (%) | - |

**(e) 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 | 10,453,615 | 0.33 |
| **Balance, June 30, 2011** | **21,138,615** | **$ 0.27** |
| **Exercisable at June 30, 2011** | **3,195,000** | **$ 0.20** |

The following table summarizes information about the stock options outstanding at June 30, 2011:

| Exercise prices | Outstanding at June 30, 2011 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at June 30, 2011 | Weighted average exercise price |
|---|---|---|---|---|---|
| $0.20 | 9,585,000 | 5.5 | $ 0.20 | 3,195,000 | $ 0.20 |
| $0.325 | 10,233,615 | 7.0 | $ 0.33 | - | $ - |
| $0.34 | 650,000 | 6.2 | $ 0.34 | - | $ - |
| $0.36 | 80,000 | 6.9 | $ 0.36 | - | $ - |
| $0.365 | 590,000 | 6.5 | $ 0.37 | - | $ - |
| | 21,138,615 | 6.3 | $ 0.27 | 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) | 0.15 – 0.29 |
| Risk-free interest rate (%) | 2.0 – 2.7 |
| Expected life (years) | 4.5 |
| Expected volatility (%) | 100 – 110 |
| Forfeiture rate (%) | 5 |
| Expected dividend yield (%) | - |

## 11. Supplemental Cash Flow Information

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2011** | June 30, 2010 | **June 30, 2011** | June 30, 2010 |
| Change in non-cash working capital: | | | | |
| Accounts receivable | **$ (7,554,685)** | $ 166,860 | **$ (6,441,406)** | $ 94,109 |
| Prepaid expenses and deposits | **5,322,379** | 44,395 | **(22,231)** | 51,112 |
| Accounts payable, accrued liabilities and income taxes payable | **(403,592)** | (914,920) | **2,104,063** | (1,077,945) |
| Movements in exchange rates | **(219,593)** | - | **(211,362)** | - |
| | **(2,855,491)** | (703,665) | **(4,570,936)** | (932,724) |
| The change in non-cash working capital has been allocated to the following activities: | | | | |
| Operating | **(5,575,820)** | (415,176) | **(5,789,421)** | (136,600) |
| Financing | **-** | 139,834 | **-** | 139,834 |
| Investing | **2,720,329** | (428,323) | **1,218,485** | (935,958) |
| | **$ (2,855,491)** | $ (703,665) | **$ (4,570,936)** | $ (932,724) |
| Supplementary cash flow information: Interest paid | **$ -** | $ 7,332 | **$ -** | $ 51,243 |

## 12. Financing Expenses

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2011** | June 30, 2010 | **June 30, 2011** | June 30, 2010 |
| Accretion of decommissioning obligations | **$ 10,754** | $ 2,674 | **$ 13,862** | $ 5,174 |
| Interest expense | **-** | 7,332 | **-** | 51,243 |
| | **$ 10,754** | $ 10,006 | **$ 13,862** | $ 56,417 |

## 13. Segmented Information

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2011** | June 30, 2010 | **June 30, 2011** | June 30, 2010 |
| Petroleum and natural gas revenue | | | | |
| Canada | **$ 539,650** | $ 892,878 | **$ 1,017,767** | $ 1,754,225 |
| Turkey | **2,167,543** | - | **2,251,558** | - |
| | **2,707,193** | 892,878 | **3,269,325** | 1,754,225 |
| Net loss | | | | |
| Canada | **(3,176,843)** | (3,194,474) | **(5,965,512)** | (4,901,585) |
| Turkey | **(1,182,163)** | - | **(2,655,503)** | - |
| | **(4,359,006)** | (3,194,474) | **(8,621,015)** | (4,901,585) |
| Capital expenditures | | | | |
| Canada | **46,417** | 449,670 | **(12,010)** | 843,847 |
| Turkey | **55,604,189** | - | **59,860,578** | - |
| | **$ 55,650,606** | $ 449,670 | **59,848,568** | 843,847 |
| Total assets | | | | |
| Canada | | | **47,652,462** | 42,349,404 |
| Turkey | | | **80,191,056** | - |
| | | | **$ 127,843,518** | $ 42,349,404 |

## 14. 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 June 30, 2011, the Company's adjusted working capital ratio was 9.9 to 1.0.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. The Company anticipates expanding its bank loan capacity in the fourth quarter of 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.

**15. Related Party Transactions**

(a) During the three and six months ended June 30, 2011, the Company incurred legal fees of $363,795 and $834,855, respectively (three and six months ended June 30, 2010 - $482,801 and $789,501) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three and six months ended June 30, 2011, the Company incurred $nil (three and six months ended June 30, 2010 - $44,371 and $67,971) in consulting fees and expenses from a corporation whose principal shareholder is a director of the Company.

The amounts charged were the exchange amounts being the amounts agreed to by the parties.

**16. Commitments**

On September 1, 2010, the Company entered into a farm-in agreement on lands held 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. As of June 30, 2011, US$8.45 million was recorded as capital with an additional US$750,000 advanced to AME-GYP.

Spending to-date includes $2,259,607 on the Rubai licenses in southeast Turkey. Although these licenses expired, the expenditures count towards earning on the remaining lands under terms of the AME-GYP farm-in agreement. 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 to-date has included evaluating the Kahta mature heavy oil field for further reservoir development and production, recompleting two indicated oil discovery wells, shooting seismic and drilling two exploration wells on previously unexplored lands.

On May 4, 2011, the Company completed a farm-in to earn a 100 percent working interest in License 4201 (Marhat farm-in) in the Thrace Basin. The license requires a commitment to drill two wells at a cost of approximately US$3.0 million. The Company expects to drill these wells in 2012.

On June 13, 2011, the Company completed a farm-in to earn a 50 percent working interest in Licenses 4094 and 4532 (TransAtlantic farm-in) in the Thrace Basin. The combined licenses require the commitment to drill two wells and spend approximately US$3.0 million on seismic. The Company plans to drill the first well and initiate the seismic program in 2011. The estimated committed expenditure is anticipated to be US$2.5 million in 2011 with a further US$3.5 to US$4.5 million in 2012.

The ultimate recovery of property and equipment costs in Turkey is dependent upon the Company fulfilling its minimum obligation to earn an interest in the AME-GYP lands and upon the existence and commercial exploitation of petroleum and natural gas reserves on undeveloped lands. 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.

## 17. Reconciliation of Equity and Loss from previous GAAP to 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 deficit.
- 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 of the interim consolidated financial statements for the three months ended March 31, 2011 have been applied in preparing the interim consolidated financial statements for the three and six months ended June 30, 2011 and the comparative information for the three and six months ended June 30, 2010.

In preparing its opening IFRS balance sheet and comparative information for the three and six months ended June 30, 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 as at June 30, 2010:

| | Previous GAAP | Effect of transition to IFRS | Note | IFRS |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | $ 28,547,522 | $ - | | $ 28,547,522 |
| Accounts receivable | 826,819 | - | | 826,819 |
| Prepaid expenses and deposits | 164,042 | - | | 164,042 |
| | 29,538,383 | - | | 29,538,383 |
| Exploration and evaluation assets | - | 12,756 | | 12,756 |
| Goodwill | 257,313 | 34,176 | | 291,489 |
| Property, plant and equipment | 11,812,175 | 694,601 | D | 12,506,776 |
| | $ 41,607,871 | $ 741,533 | | $ 42,349,404 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current Liabilities | | | | |
| Accounts payable and accrued liabilities | $ 2,101,404 | $ - | | $ 2,101,404 |
| Decommissioning obligations | 486,086 | 113,140 | F | 599,226 |
| Shareholders' Equity | | | | |
| Share capital | 46,455,560 | 419,904 | G | 46,875,464 |
| Contributed surplus | 2,067,431 | 856,453 | H | 2,923,884 |
| Deficit | (9,502,610) | (647,964) | | (10,150,574) |
| | 39,020,381 | 628,393 | | 39,648,774 |
| | $ 41,607,871 | $ 741,533 | | $ 42,349,404 |

Reconciliation of the Consolidated Statement of Loss for the three months ended June 30, 2010:

| | Previous GAAP | Effect of transition to IFRS | Note | IFRS |
|---|---|---|---|---|
| **Revenue** | | | | |
| Petroleum and natural gas sales | $ 892,878 | $ - | | $ 892,878 |
| Royalties | (119,195) | - | | (119,195) |
| Other income | 27,690 | - | | 27,690 |
| | 801,373 | - | | 801,373 |
| **Expenses** | | | | |
| Production | 462,700 | - | | 462,700 |
| Transportation | 23,985 | - | | 23,985 |
| General and administrative | 794,146 | 29,236 | I | 823,382 |
| Transaction costs | 434,057 | - | L | 434,057 |
| Financing | 13,377 | (3,371) | F | 10,006 |
| Stock-based compensation | 1,370,182 | 460,277 | H | 1,830,459 |
| Depletion and depreciation | 848,600 | (437,342) | D | 411,258 |
| | 3,947,047 | 48,800 | | 3,995,847 |
| Loss before income taxes | (3,145,674) | (48,800) | | (3,194,474) |
| Net loss and comprehensive loss | $ (3,145,674) | $ (48,800) | | $ (3,194,474) |
| Net loss per share | | | | |
| Basic | $ (0.05) | | | $ (0.05) |
| Diluted | $ (0.05) | | | $ (0.05) |

Reconciliation of the Consolidated Statement of Loss for the six months ended June 30, 2010:

| | Previous GAAP | Effect of transition to IFRS | Note | IFRS |
|---|---|---|---|---|
| **Revenue** | | | | |
| Petroleum and natural gas sales | $ 1,754,225 | $ - | | $ 1,754,225 |
| Royalties | (192,700) | - | | (192,700) |
| Other income | 27,690 | - | | 27,690 |
| | 1,589,215 | - | | 1,589,215 |
| **Expenses** | | | | |
| Production | 852,665 | - | | 852,665 |
| Transportation | 45,921 | - | | 45,921 |
| General and administrative | 1,067,231 | 48,747 | I | 1,115,978 |
| Transaction costs | 1,021,008 | (200,000) | L | 821,008 |
| Financing | 60,788 | (4,371) | F | 56,417 |
| Stock-based compensation | 1,852,502 | 826,178 | H | 2,678,680 |
| Exploration and evaluation | - | 95,795 | E | 95,795 |
| Depletion and depreciation | 1,579,600 | (835,964) | D | 743,636 |
| | 6,479,715 | (69,615) | | 6,410,100 |
| Loss before income taxes | (4,890,500) | 69,615 | | (4,820,885) |
| Deferred tax expense | - | 80,700 | G | 80,700 |
| Net loss and comprehensive loss | $ (4,890,500) | $ (11,085) | | $ (4,901,585) |
| Net loss per share | | | | |
| Basic | $ (0.07) | | | $ (0.07) |
| Diluted | $ (0.07) | | | $ (0.07) |

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 $95,795 at June 30, 2010.

(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.

(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 $437,342 for the three months ended June 30, 2010 and $835,964 for the six months ended June 30, 2010.

(E) Exploration expense – Under IFRS, Valeura has chosen to recognize an exploration and evaluation expense when a CGU is impaired. Valeura recognized $95,795 in exploration and evaluation expense for the six months ended June 30, 2010.

(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 deficit.

As a result of the change in the discount rate applied, accretion of decommissioning obligation expense (included in financing expense) decreased by $3,371 for the three months ended June 30, 2010 and $4,371 for the six months ended June 30, 2010.

(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 deficit.

For the six months ended June 30, 2010, a deferred tax expense of $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 transitional adjustment to contributed surplus to account for the graded vesting and forfeitures was an increase of $30,275 with the offset being charged to deficit. This also resulted in an increase to stock-based compensation expense for the year ended December 31, 2010 of $1,778,050 (three and six months ended June 30, 2010 - $460,277 and $826,178).

(I) Under IFRS, the criteria for which general and administrative expenses ("G&A") can be capitalized are different than previous GAAP and as a result a greater portion of G&A costs have been expensed. This resulted in an additional $29,236 of G&A expenses being recorded for the three months ended June 30, 2010 and $48,747 for the six months ended June 30, 2010.

(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 deficit at January 1, 2010. As a result, transaction costs in the six months ended June 30, 2010 are reduced by $200,000.