Interim Consolidated Financial Statements (unaudited)

Three and nine months ended September 30, 2011 and 2010

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valeura energy inc.

Consolidated Statements of Financial Position

(stated in Canadian Dollars, unaudited)	**September 30, 2011**	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 33,190,894**	$ 19,460,311
Accounts receivable	**11,448,821**	2,264,592
Prepaid expenses and deposits	**261,978**	228,763
	44,901,693	21,953,666
Exploration and evaluation assets *(notes 5,7)*	**45,439,444**	5,389,420
Property, plant and equipment *(notes 5,6,7)*	**39,621,175**	10,689,169
Goodwill *(note 7)*	**134,495**	134,495
	$ 130,096,807	$ 38,166,750
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 13,495,830**	$ 2,256,699
Income taxes payable	**553,559**	-
	14,049,389	2,256,699
Decommissioning obligations *(note 9)*	**7,539,164**	594,994
Deferred taxes	**8,239,188**	-
Shareholders' Equity		
Share capital *(note 10)*	**122,068,898**	46,974,024
Warrants *(note 10)*	**5,971,148**	-
Contributed surplus	**6,951,780**	5,013,957
Accumulated other comprehensive income (loss)	**(5,679,331)**	203
Deficit	**(29,043,429)**	(16,673,127)
	100,269,066	35,315,057
	$ 130,096,807	$ 38,166,750

See accompanying notes to the consolidated financial statements

See commitments *(note 16)*

valeura energy inc.

Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2011 and 2010

	Three Months Ended		Nine Months Ended	
(stated in Canadian Dollars, unaudited)	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
		(note 17)		*(note 17)*
Revenue				
Petroleum and natural gas sales	**$ 5,836,765**	$ 794,215	**$ 9,106,090**	$ 2,548,440
Royalties	**(765,841)**	(75,987)	**(1,116,025)**	(268,687)
Other Income	**101,109**	45,780	**285,033**	73,470
	5,172,033	764,008	**8,275,098**	2,353,223
Expenses				
Production	**1,305,366**	451,060	**2,511,878**	1,303,725
Transportation	**6,077**	22,703	**24,104**	68,624
General and administrative	**1,331,660**	1,058,008	**4,540,164**	2,173,986
Transaction costs *(note 4)*	**163,868**	(2,416)	**2,101,182**	818,592
Financing *(note 12)*	**21,773**	3,133	**35,635**	59,550
Foreign exchange (gain) loss	**134,992**	25,533	**90,329**	25,533
Stock-based compensation	**628,654**	1,032,481	**1,870,554**	3,711,161
Exploration and evaluation *(notes 5,7)*	**1,092,000**	513,484	**3,372,121**	609,279
Depletion and depreciation *(notes 6,7)*	**4,344,183**	831,987	**6,224,774**	1,575,623
	9,028,573	3,935,973	**20,770,741**	10,346,073
Loss for the period before income taxes	**(3,856,540)**	(3,171,965)	**(12,495,643)**	(7,992,850)
Income taxes				
Deferred expense (recovery)	**(652,640)**	-	**(950,000)**	80,700
Current	**545,386**	-	**824,659**	-
	(107,254)		**(125,341)**	
Net loss	**(3,749,286)**	(3,171,965)	**(12,370,302)**	(8,073,550)
Other comprehensive loss				
Currency translation adjustments	**(4,102,898)**	-	**(5,679,534)**	-
Comprehensive loss	**(7,852,184)**	(3,171,965)	**(18,049,836)**	(8,073,550)
Net loss per share *(note 10(d))*				
Basic	**$ (0.08)**	$ (0.16)	**$ (0.40)**	$ (0.56)
Diluted	**$ (0.08)**	$ (0.16)	**$ (0.40)**	$ (0.56)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2011 and 2010

	Three Months Ended		Nine Months Ended	
(stated in Canadian Dollars, unaudited)	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	**$ (3,749,286)**	$ (3,171,965)	**$ (12,370,302)**	$ (8,073,550)
Items not involving cash:				
Depletion and depreciation	**4,344,183**	831,987	**6,224,774**	1,575,623
Exploration and evaluation expense *(note 5)*	**1,092,000**	513,484	**3,372,121**	609,279
Stock-based compensation	**628,654**	1,032,481	**1,870,554**	3,711,161
Financing expenses *(note 12)*	**21,773**	3,133	**35,635**	8,307
Shares issued for services	**-**	98,560	**-**	162,970
Unrealized foreign exchange loss	**298,505**	25,533	**253,842**	25,533
Deferred tax expense (recovery)	**(652,640)**	-	**(950,000)**	80,700
Decommissioning costs incurred	**-**	(15,864)	**(54,124)**	(15,864)
	1,983,189	(682,651)	**(1,617,500)**	(1,915,841)
Change in non-cash working capital *(note 11)*	**198,103**	(746,656)	**(5,591,317)**	(883,256)
	2,181,292	(1,429,307)	**(7,208,817)**	(2,799,097)
Financing activities:				
Issuance of units, net of issue costs *(note 10(b))*	**-**	-	**81,066,022**	29,272,973
Net change in credit facility	**-**	-	**-**	(3,759,592)
Change in non-cash working capital *(note 11)*	**-**	-	**-**	139,834
	-	-	**81,066,022**	25,653,215
Investing activities:				
Cash received on business combination *(note 4)*	**-**	-	**-**	6,043,902
Property and equipment expenditures	**(327,432)**	(1,189,028)	**(382,137)**	(1,937,080)
Acquisition of TBNG-PTI assets *(note 4)*	**-**	-	**(53,724,623)**	-
Acquisition of Edirne assets *(note 4)*	**-**	-	**(1,946,450)**	-
Exploration and evaluation expenditures	**(7,515,817)**	-	**(11,638,607)**	(95,795)
Change in non-cash working capital *(note 11)*	**6,393,475**	(864,771)	**7,609,369**	(1,800,729)
	(1,449,774)	(2,053,799)	**(60,082,448)**	2,210,298
Foreign exchange gain (loss) on cash held in foreign currencies	**(45,469)**	-	**(44,174)**	-
Net change in cash and cash equivalents	**686,049**	(3,483,106)	**13,730,583**	25,064,416
Cash and cash equivalents, beginning of period	**32,504,845**	28,547,522	**19,460,311**	-
Cash and cash equivalents, end of period	**$ 33,190,894**	$ 25,064,416	**$ 33,190,894**	$ 25,064,416

Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2011 and 2010

(stated in Canadian Dollars, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2011	19,867,700	$ 46,974,024	$ -	$ 5,013,957	$(16,673,127)	$ 203	$ 35,315,057
Issuance of units pursuant to private placement	26,538,435	75,094,874	5,971,148	-	-	-	81,066,022
Net loss for the period	-	-	-	-	(12,370,302)	-	(12,370,302)
Currency translation adjustments	-	-	-	-	-	(5,679,534)	(5,679,534)
Stock-based compensation	-	-	-	1,937,823	-	-	1,937,823
September 30, 2011	**46,406,135**	**$122,068,898**	**$5,971,148**	**$ 6,951,780**	**$(29,043,429)**	**$(5,679,331)**	**$100,269,066**

(stated in Canadian Dollars, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2010	6,728,571	$ 11,076,280	$ -	$ 164,587	$ (5,248,989)	$ -	$ 5,991,878
Equity adjustment pursuant to Plan of Arrangement	4,994,179	7,285,761	-	94,319	-	-	7,380,080
Issued pursuant to private placement	3,000,000	6,000,000	-	-	-	-	6,000,000
Issued pursuant to special warrant financing	5,110,000	22,513,423	-	-	-	-	22,513,423
Issued for services received	34,950	98,560	-	-	-	-	98,560
Net loss for the period	-	-	-	-	(8,073,550)	-	(8,073,550)
Stock-based compensation	-	-	-	3,711,161	-	-	3,711,161
September 30, 2010	**19,867,700**	**$ 46,974,024**	**$ -**	**$ 3,970,067**	**$(13,322,539)**	**$ -**	**$ 37,621,552**

On September 13, 2011, the Company received approval to consolidate its shares on a 10:1 basis. The number of shares, warrants and options outstanding has been adjusted on a retroactive basis after giving effect to the 10:1 consolidation. The number of post consolidation common shares outstanding was reduced by 13 due to rounding (see note 10).

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 Toronto Stock Exchange ("TSX") 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 November 14, 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for 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 September 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 ($2,416) and $818,592, respectively, were expensed for the three and nine months ended September 30, 2010. The purchase price paid by PanWestern (now Valeura) for all of Northern Hunter's shares was a total of 6,728,570 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 nine months ended September 30, 2010 would have been as follows:

		As Stated		PanWestern Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	2,548,440	$	163,431	$	2,711,871
Net loss	$	(8,073,550)	$	(101,337)	$	(8,174,887)

(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 September 30, 2011:

Natural gas sales	$	1,738,880
Royalties		(216,119)
Production expenses		(743,605)
	$	779,156

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 the nine months ended September 30, 2011 would have been as follows:

Nine months ended September 30, 2011		As Stated		Edirne Assets Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	9,106,090	$	836,311	$	9,942,401
Net loss	$	(12,575,942)	$	(45,344)	$	(12,621,286)

(c) Acquisition of TBNG-PTI Assets

On June 8, 2011 Valeura announced the 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 September 30, 2011:

Natural gas sales	$	5,832,862
Royalties		(788,044)
Production expenses		(786,212)
	$	4,258,606

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 the nine months ended September 30, 2011 would have been as follows:

Nine months ended September 30, 2011	As Stated	TBNG Assets Prior to Acquisition	Proforma
Petroleum and natural gas sales	$ 9,106,090	$ 11,143,387	$ 20,249,477
Net loss	$ (12,575,942)	$ 3,351,876	$ (9,224,066)

Transaction costs of $163,868 and $2,101,182, respectively, were expensed for the three and nine months ended September 30, 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 7)*	(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	11,638,607
Capitalized stock-based compensation	67,269
Transfer to property, plant and equipment *(note 6)*	(337,265)
Transfer to exploration and evaluation expense *(note 7)*	(3,372,121)
Effects of movements in exchange rates	(3,649,846)
Balance, September 30, 2011	**$ 45,439,444**

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

The Company spent $7,245,821 and $47,409,256, respectively, on exploration and evaluation assets in the three and nine months ended September 30, 2011. In the three and nine months ended September 30, 2011, Valeura recorded $1,092,000 and $3,372,121, respectively, of E&E expenses.

On May 9, 2011, Valeura was notified 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 AME-GYP farm-in lands. 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 equal to the amount invested in the Rubai licenses.

After completing a well test program and geological and engineering studies of the Kahta heavy oil field, Valeura elected not to proceed with a re-development program on the Kahta lease. Valeura was required to elect to participate in a re-development program by September 1, 2010 if it was to earn any interest in the Kahta lease. Valeura has adjusted the carrying value of its Kahta E&E assets accordingly.

The ultimate recovery of property and equipment costs in Turkey is dependent upon the Company fulfilling its minimum obligation to earn an interest its various farm-in lands, obtaining government approvals, obtaining and maintaining licenses in good standing, upon the existence and commercial exploitation of petroleum and natural gas reserves and undeveloped lands, and other uncertainties.

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	382,137
Transfer from exploration and evaluation assets	337,265
Change in decommissioning obligations *(note 9)*	1,577,861
Effects of movements in exchange rates	(3,432,498)
Balance, September 30, 2011	**$ 48,424,442**

Accumulated depletion and depreciation	Total
Balance, January 1, 2010	$ -
Depletion and depreciation expense	1,396,032
Impairment *(note 7)*	1,321,234
Balance, December 31, 2010	2,717,266
Depletion and depreciation expense	6,224,774
Effects of movements in exchange rates	(138,773)
Balance, September 30, 2011	**$ 8,803,267**

Net book value	Total
Balance, January 1, 2010	$ 11,415,791
Balance, December 31, 2010	$ 10,689,169
Balance, September 30, 2011	**$ 39,621,175**

(a) Impairment charge

Impairment of property, plant and equipment, and any eventual reversal thereof, is 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 $8,857,173 have been included in 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)*	3,372,121
Cumulative impairment, September 30, 2011	**$ 5,550,268**

8. Credit Facilities

On September 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% per annum and a $1,000,000 development demand loan with an interest rate of bank prime plus 1.50% per annum. 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 September 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

	Nine months ended September 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	**312,865**	39,485
Obligations settled	**(54,124)**	(33,750)
Change in estimates	**1,264,996**	-
Accretion of decommissioning liabilities *(note 12)*	**35,635**	11,142
Effects of movements in exchange rates	**(595,667)**	-
Decommissioning obligations, end of period	**$ 7,539,164**	$ 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 following significant assumptions were used to estimate the asset retirement obligations:

	September 30, 2010	December 31, 2010
Undiscounted cash flows, escalated at 2%	**$ 8,152,750**	$ 741,050
Risk free rate	**1.4% – 1.9%**	3.5%
Inflation rate	**2%**	2%
Timing of cash flows	**2-19 years**	1-12 years

10. Share Capital

(a) Authorized

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

(b) Share consolidation

On September 15, 2011, the Company received approval to consolidate its shares on a 10:1 basis. The number of shares, warrants and options outstanding has been adjusted on a retroactive basis after giving effect to the 10:1 consolidation. The number of post consolidation common shares outstanding was reduced by 13 due to rounding.

(c) Private placement financing

On February 28, 2011, the Company completed a private placement of subscription receipts for total gross proceeds of $86.25 million. After giving effect to the 10:1 share consolidation, Valeura issued a total of 26,538,435 subscription receipts at a price of $3.25 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.

After giving effect to the 10:1 share consolidation, each subscription receipt represented the right to automatically receive one common share and one-half of one common share purchase warrant of the Company. Each post-

consolidation share purchase warrant entitles the holder to acquire one common share at a price of $5.50 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 is equal to or greater than $11.00 per common share. The actual number of share purchase warrants currently outstanding is 132,692,175 which will be consolidated on a 10:1 basis only upon exercise. The number of share purchase warrants after consolidation may differ slightly due to rounding.

The warrants were valued at $5,971,148 or $0.45 per warrant as part of the $3.25 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)	0.45
Risk-free interest rate (%)	2.2
Expected life (years)	5.0
Expected volatility (%)	100
Expected forfeiture (%)	0
Expected dividend yield (%)	-

(d) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. After giving effect to the 10:1 share consolidation, the weighted average number of common shares outstanding for the three and nine months ended September 30, 2011 is 46,406,135 and 30,949,684 respectively (three and nine months ended September 30, 2010 – 19,841,107 and 14,457,660, 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.

(e) Performance warrants

Valeura has issued the following performance warrants to directors, officers and certain employees of the Company (post 10:1 share consolidation):

	Number of Performance Warrants	Weighted average exercise price
Balance, January 1, 2010	-	$ -
Granted	2,796,750	$ 2.00
Balance, December 31, 2010 and September 30, 2011	**2,796,750**	**$ 2.00**
Exercisable at September 30, 2011	**1,864,500**	**$ 2.00**

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 $4.00 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 $5.00 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 $6.00 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 the post-consolidation performance warrants outstanding at September 30, 2011:

Exercise prices	Outstanding at September 30, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2011	Weighted average exercise price
$2.00	2,796,750	3.3	$ 2.00	1,864,500	$ 2.00

The fair value of the post-consolidation performance warrants issued was estimated using the Black-Scholes model with the following assumptions:

Fair value of performance warrants granted ($/warrant)	1.50
Risk-free interest rate (%)	2.5
Expected life (years)	4.5
Expected volatility (%)	110
Expected forfeiture (%)	5
Expected dividend yield (%)	-

(f) 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 (post 10:1 share consolidation):

	Number of Options	Weighted average exercise price
Balance, January 1, 2010	80,900	$ 9.40
Granted	1,068,500	2.20
Options assumed on April 9, 2010 corporate acquisition	329,500	7.80
Exercised	(80,900)	9.40
Forfeited	(329,500)	7.80
Balance, December 31, 2010	1,068,500	2.20
Granted	1,247,361	3.09
Balance, September 30, 2011	**2,315,861**	**$ 2.66**
Exercisable at September 30, 2011	**341,167**	**$ 2.09**

The following table summarizes information about the post-consolidation stock options outstanding at September 30, 2011:

Exercise prices	Outstanding at September 30, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2011	Weighted average exercise price
$2.00 - $2.20	1,160,500	5.6	$ 2.03	319,500	$ 2.00
$3.25	1,023,361	6.7	$ 3.25	-	$ -
$3.40 - $3.65	132,000	6.1	$ 3.52	21,667	$ 3.40
	2,315,861	6.1	$ 2.66	341,167	$ 2.09

The fair value of the post-consolidation stock options issued was estimated using the Black-Scholes model with the following assumptions:

Fair value of stock options granted ($/share)	1.48 – 2.90
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		**Nine months ended**	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Change in non-cash working capital:				
Accounts receivable	**$ (2,742,823)**	$ (508,927)	**$ (9,184,229)**	$ (414,818)
Prepaid expenses and deposits	**(10,984)**	(139,837)	**(33,215)**	(88,725)
Accounts payable, accrued liabilities and income taxes payable	**9,688,627**	(962,663)	**11,792,690**	(2,040,608)
Movements in exchange rates	**(343,242)**	-	**(557,194)**	-
	6,591,578	(1,611,427)	**2,018,052**	(2,544,151)
The change in non-cash working capital has been allocated to the following activities:				
Operating	**198,103**	(746,656)	**(5,591,317)**	(883,256)
Financing	**-**	-	**-**	139,834
Investing	**6,393,475**	(864,771)	**7,609,369**	(1,800,729)
	$ 6,591,578	$ (1,611,427)	**$ 2,018,052**	$ (2,544,151)
Supplementary cash flow information:				
Interest paid	**$ -**	$ -	**$ -**	$ 51,243

12. Financing Expenses

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Accretion of decommissioning obligations	**$ 21,773**	$ 3,133	**$ 35,635**	$ 8,307
Interest expense	**-**	-	**-**	51,243
	$ 21,773	$ 3,133	**$ 35,635**	$ 59,550

13. Segmented Information

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Petroleum and natural gas revenue				
Canada	**$ 516,580**	$ 794,215	**$ 1,534,347**	$ 2,548,440
Turkey	**5,320,185**	-	**7,571,743**	-
	5,836,765	794,215	**9,106,090**	2,548,440
Net loss				
Canada	**(2,047,510)**	(3,171,965)	**(8,013,023)**	(8,073,550)
Turkey	**(1,701,776)**	-	**(4,357,279)**	-
	(3,749,286)	(3,171,965)	**(12,370,302)**	(8,073,550)
Capital expenditures				
Canada	**17,927**	1,189,028	**5,917**	1,937,080
Turkey	**7,825,322**	-	**67,685,900**	-
	$ 7,843,249	$ 1,189,028	**67,691,817**	1,937,080
Total assets				
Canada			**49,663,426**	38,166,750
Turkey			**80,433,381**	-
			$ 130,096,807	$ 38,166,750

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 September 30, 2011, the Company's adjusted working capital ratio was 3.3 to 1.0.

Valeura has not utilized bank loans or debt capital to finance capital expenditures to date. As a result of the TBNG-PTI acquisition, the Company is in a position to expand its borrowing capacity with the addition of production and cash flow in Turkey. The process to review proposals for a potential international lending facility has been initiated with results expected during the first quarter of 2012. 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 nine months ended September 30, 2011, the Company incurred legal fees of $51,062 and $885,917, respectively (three and nine months ended September 30, 2010 - $189,102 and $978,603) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the three and nine months ended September 30, 2011, the Company incurred $nil (three and nine months ended September 30, 2010 - $700 and $68,671) 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.

Spending to-date includes $2.3 million on the Rubai licenses in southeast Turkey and $0.3 million on the Kahta production lease. Although these licenses either expired or were allowed to lapse, 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.

By letter dated September 5, 2011, Valeura notified the operators of the AME-GYP farm-in assets that it had funded the minimum investment level of US$8.8 million under the farm-in agreement and requested transfer of a 25% interest in the Karakilise licenses 2674 and 2677 to Valeura. Valeura has indicated its intent to fund the deepening of the Altinakar-1 well as soon as possible. The earning program to-date has included evaluating the Kahta mature heavy oil field, recompleting two indicated oil discovery wells, shooting seismic and drilling two exploration wells on previously unexplored lands. Discussions are continuing with the AME-GYP operators to seek agreement on the earning account and proceed with deepening the Altinkar-1 well. The Company has until December 31, 2011 to incur expenditures and earn interests under the AME-GYP farm-in agreement.

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 has drilled the first well, Evrenbey-1, and plans to initiate the seismic program in 2012. The estimated committed expenditure is anticipated to be US$1.5 million in 2011 with a further US$4.0 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.

On August 31, 2011, the Company entered into a sublease agreement for office space. The sublease is for a term of two years commencing on November 1, 2011. The total amount committed under this sublease is approximately $425,000 which includes an estimate for operating costs over the term of the lease.

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 nine months ended September 30, 2011 and the comparative information for the three and nine months ended September 30, 2010.

In preparing its opening IFRS balance sheet and comparative information for the three and nine months ended September 30, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from 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 September 30, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Assets				
Current Assets				
Cash and cash equivalents	$ 25,064,416	$ -		$ 25,064,416
Accounts receivable	1,335,746	-		1,335,746
Prepaid expenses and deposits	303,879	-		303,879
	26,704,041	-		26,704,041
Exploration and evaluation assets	-	663,025	B	663,025
Goodwill	257,313	34,176	K	291,489
Property, plant and equipment	12,213,268	(482,751)	D	11,730,517
	$ 39,174,622	$ 214,450		$ 39,389,072
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities	$ 1,164,274	$ -		$ 1,164,274
Decommissioning obligations	492,760	110,486	F	603,246
Shareholders' Equity				
Share capital	46,554,120	419,904	G	46,974,024
Contributed surplus	2,664,991	1,305,076	H	3,970,067
Deficit	(11,701,523)	(1,621,016)	F,G,H,L	(13,322,539)
	37,517,588	103,964		37,621,552
	$ 39,174,622	$ 214,450		$ 39,389,072

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

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Revenue				
Petroleum and natural gas sales	$ 794,215	$ -		$ 794,215
Royalties	(75,987)	-		(75,987)
Other income	45,780	-		45,780
	764,008	-		764,008
Expenses				
Production	451,060	-		451,060
Transportation	22,703	-		22,703
General and administrative	1,045,180	12,828	I	1,058,008
Transaction costs	(2,416)	-	L	(2,416)
Financing	6,249	(3,116)	F	3,133
Foreign exchange loss	25,533	-		25,533
Stock-based compensation	587,112	445,369	H	1,032,481
Exploration and evaluation	-	513,484	E	513,484
Depletion and depreciation	827,500	4,487	D	831,987
	2,962,921	973,052		3,935,973
Loss before income taxes	(2,198,913)	(973,052)		(3,171,965
Net loss and comprehensive loss	$ (2,198,913)	$ (973,052)		$ (3,171,965)
Net loss per share				
Basic	$ (0.11)			$ (0.16)
Diluted	$ (0.11)			$ (0.16)

Reconciliation of the Consolidated Statement of Loss for the nine months ended September 30, 2010:

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Revenue				
Petroleum and natural gas sales	$ 2,548,440	$ -		$ 2,548,440
Royalties	(268,687)	-		(268,687)
Other income	73,470	-		73,470
	2,353,223	-		2,353,223
Expenses				
Production	1,303,725	-		1,303,725
Transportation	68,624	-		68,624
General and administrative	2,112,411	61,575	I	2,173,986
Transaction costs	1,018,592	(200,000)	L	818,592
Financing	67,037	(7,487)	F	59,550
Foreign exchange loss	25,533	-		25,533
Stock-based compensation	2,439,614	1,271,547	H	3,711,161
Exploration and evaluation	-	609,279	E	609,279
Depletion and depreciation	2,407,100	(831,477)	D	1,575,623
	9,442,636	903,437		10,346,073
Loss before income taxes	(7,089,413)	(903,437)		(7,992,850)
Deferred tax expense	-	80,700	G	80,700
Net loss and comprehensive loss	$ (7,089,413)	$ (984,137)		$ (8,073,550)
Net loss per share				
Basic	$ (0.49)			$ (0.56)
Diluted	$ (0.49)			$ (0.56)

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 $663,025 at September 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 an increase in depletion and depreciation expense of $4,487 for the three months ended September 30, 2010 and a decrease of $831,477 for the nine months ended September 30, 2010.

(E) Exploration expense – under IFRS, Valeura has chosen to recognize an exploration and evaluation expense when a CGU is impaired. Valeura recognized $513,484 and $609,279, respectively, in exploration and evaluation expense for the three and nine months ended September 30, 2010.

(F) Decommissioning obligations – under previous GAAP, Valeura's decommissioning obligations at December 31, 2009 were discounted based on a credit adjusted risk-free rate of 8%. 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 $3,116 and $7,487, respectively, for the three and nine months ended September 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 nine months ended September 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 nine months ended September 30, 2010 - $445,369 and $1,271,547).

(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 $12,828 and $61,575, respectively, of G&A expenses being recorded for the three and nine months ended September 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 – on transition to IFRS, goodwill was increased by $34,176 due to using a lower discount rate of 4% on the decommissioning obligation estimate for the PanWestern acquisition.

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 test under IFRS for the year ended December 31, 2010, goodwill was identified as being impaired and $156,994 was charged to loss in Q4-2010. The net goodwill adjustment is $122,818.

(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 nine months ended September 30, 2010 are reduced by $200,000.