valeura energy inc.

Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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MANAGEMENT’S REPORT

The management of Valeura Energy Inc. is responsible for the preparation of all information included in these consolidated financial statements and Management’s Discussion & Analysis (“MD&A”). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and adopted in Canada. Financial information that is presented in the MD&A is consistent with the consolidated financial statements.

In preparation of the consolidated financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been presented fairly in all material respects.

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

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

The Board of Directors, through its Audit Committee, has reviewed the consolidated financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of independent directors. Valeura Energy Inc.’s Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

(signed) “Jim McFarland”
President and CEO

(signed) “Steve Bjornson”
VP Finance & CFO

March 21, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Valeura Energy Inc.

We have audited the accompanying consolidated financial statements of Valeura Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Valeura Energy Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed)

"KPMG LLP"
Chartered Accountants
Calgary, Canada

March 21, 2012

valeura energy inc.

Consolidated Statements of Financial Position

(stated in Canadian Dollars)	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			
Current Assets			
Cash and cash equivalents	**$ 24,106,718**	$ 19,460,311	$ -
Accounts receivable	**14,369,218**	2,264,592	497,337
Prepaid expenses and deposits	**213,431**	228,763	89,938
	38,689,367	21,953,666	587,275
Exploration and evaluation assets *(notes 5,6,7)*	**42,050,137**	5,389,420	-
Property, plant and equipment *(notes 5,6,7)*	**39,962,396**	10,689,169	11,415,791
Deferred taxes	**-**	-	139,200
Goodwill *(note 7)*	**-**	134,495	-
	$ 120,701,900	$ 38,166,750	$ 12,142,266
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 9,269,892**	$ 2,256,699	$ 2,078,396
Credit facilities *(note 8)*	**-**	-	3,759,592
	9,269,892	2,256,699	5,837,988
Decommissioning obligations *(note 9)*	**7,440,539**	594,994	253,900
Deferred premium on flow-through shares	**-**	-	58,500
Deferred taxes *(note 10)*	**8,309,370**	-	-
Shareholders' Equity			
Share capital *(note 12)*	**122,058,684**	46,974,024	11,076,280
Warrants *(note 12)*	**5,971,148**	-	-
Contributed surplus	**7,652,735**	5,013,957	164,587
Accumulated other comprehensive income (loss)	**(7,550,909)**	203	-
Deficit	**(32,449,559)**	(16,673,127)	(5,248,989)
	95,682,099	35,315,057	5,991,878
	$ 120,701,900	$ 38,166,750	$ 12,142,266

See accompanying notes to the consolidated financial statements

See Commitments *(note 18)*
See Subsequent Events *(note 19)*

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2011 and 2010

(stated in Canadian Dollars)	**December 31, 2011**	December 31, 2010
		(note 20)
Revenue		
Petroleum and natural gas sales	**$ 16,725,345**	$ 3,234,538
Royalties	**(2,113,832)**	(280,187)
Other Income	**373,867**	118,333
	14,985,380	3,072,684
Expenses		
Production	**3,879,976**	1,662,365
Transportation	**27,792**	81,205
General and administrative *(note 11)*	**6,592,449**	3,295,780
Transaction costs *(note 5)*	**1,935,187**	924,485
Financing *(note 14)*	**65,890**	62,385
Foreign exchange loss	**397,618**	76,725
Stock-based compensation *(notes 11,12)*	**2,476,855**	4,738,998
Exploration and evaluation *(notes 5,6,7)*	**4,429,512**	699,919
Depletion and depreciation *(note 7)*	**9,933,931**	1,396,032
Impairment *(note 7)*	**1,610,495**	1,478,228
	31,349,705	14,416,122
Loss for the period before income taxes	**(16,364,325)**	(11,343,438)
Income taxes		
Deferred tax expense (recovery) *(note 10)*	**(587,893)**	80,700
Net loss	**(15,776,432)**	(11,424,138)
Other comprehensive income (loss)		
Currency translation adjustments	**(7,551,112)**	203
Comprehensive loss	**(23,327,544)**	(11,423,935)
Net loss per share *(note 12(e))*		
Basic	**$ (0.45)**	$ (0.72)
Diluted	**$ (0.45)**	$ (0.72)

See accompanying notes to the consolidated financial statements

valeura energy inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

(stated in Canadian Dollars)	**December 31, 2011**	December 31, 2010
Cash was provided by (used in):		
Operating activities:		
Net loss for the year	**$ (15,776,432)**	$ (11,424,138)
Depletion and depreciation	**9,933,931**	1,396,032
Impairment	**1,610,495**	1,478,228
Exploration and evaluation expense *(note 5,6,7)*	**4,429,512**	699,919
Stock-based compensation	**2,476,855**	4,738,998
Financing expenses *(note 14)*	**65,890**	11,142
Shares issued for services	**-**	162,970
Unrealized foreign exchange loss	**369,209**	76,725
Deferred tax expense (recovery)	**(587,893)**	80,700
Decommissioning costs incurred	**(56,064)**	(33,750)
Change in non-cash working capital *(note 13)*	**(2,165,733)**	(164,609)
	299,770	(2,977,783)
Financing activities:		
Issuance of units *(note 12(c),12(d))*	**86,249,914**	-
Issuance of shares *(note 12(c))*	**-**	30,776,550
Share issuance costs *(note 12(c),12(d))*	**(5,194,106)**	(1,503,577)
Net change in credit facility	**-**	(3,759,592)
Change in non-cash working capital *(note 13)*	**-**	-
	81,055,808	25,513,381
Investing activities:		
Cash received on business combination *(note 5)*	**-**	6,043,902
Property and equipment expenditures	**(7,218,663)**	(838,014)
Acquisition of TBNG-PTI assets *(note 5)*	**(53,724,623)**	-
Acquisition of Edirne assets *(note 5)*	**(1,946,450)**	-
Exploration and evaluation expenditures	**(9,918,324)**	(6,089,339)
Change in non-cash working capital *(note 13)*	**(3,689,021)**	(2,169,186)
	(76,497,081)	(3,052,637)
Foreign exchange loss on cash held in foreign currencies	**(212,090)**	(22,650)
Net change in cash and cash equivalents	**4,646,407**	19,460,311
Cash and cash equivalents, beginning of year	**19,460,311**	-
Cash and cash equivalents, end of year	**$ 24,106,718**	$ 19,460,311

Consolidated Statements of Changes in Shareholders' Equity
For the Years ended December 31, 2011 and 2010

(stated in Canadian Dollars)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2011	19,867,713	$ 46,974,024	$ -	$ 5,013,957	$(16,673,127)	$ 203	$ 35,315,057
Issuance of units pursuant to private placement	26,538,435	80,278,766	5,971,148	-	-	-	86,249,914
Share issuance costs	-	(5,194,106)	-	-	-	-	(5,194,106)
Rounding due to share consolidation	(13)	-	-	-	-	-	-
Net loss for the period	-	-	-	-	(15,776,432)	-	(15,776,432)
Currency translation adjustments	-	-	-	-	-	(7,551,112)	(7,551,112)
Stock-based compensation	-	-	-	2,638,778	-	-	2,638,778
December 31, 2011	**46,406,135**	**$122,058,684**	**$5,971,148**	**$ 7,652,735**	**$(32,449,559)**	**$(7,550,909)**	**$ 95,682,099**

(stated in Canadian Dollars)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2010	1,403,041	$ 11,076,280	$ -	$ 164,587	$ (5,248,989)	$ -	$ 5,991,878
Issued pursuant to exercise of options and contract termination	92,200	959,801	-	(135,841)	-	-	823,960
Equity adjustment pursuant to Plan of Arrangement *(note 5)*	5,233,343	-	-	216,458	-	-	216,458
Issued pursuant to Plan of Arrangement *(note 5)*	4,994,179	6,325,960	-	-	-	-	6,325,960
Issued pursuant to private placement	3,000,000	6,000,000	-	-	-	-	6,000,000
Issued pursuant to special warrant financing	5,110,000	24,017,000	-	-	-	-	24,017,000
Share issuance costs	-	(1,503,577)	-	-	-	-	(1,503,577)
Issued for services received	34,950	98,560	-	-	-	-	98,560
Net loss for the period	-	-	-	-	(11,424,138)	-	(11,424,138)
Currency translation adjustments	-	-	-	-	-	203	203
Stock-based compensation	-	-	-	4,768,753	-	-	4,768,753
December 31, 2010	**19,867,713**	**$ 46,974,024**	**$ -**	**$ 5,013,957**	**$(16,673,127)**	**$ 203**	**$ 35,315,057**

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 (see note 12(b)).

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 continues to pursue international expansion 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

These consolidated financial statements present Valeura's first annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS") as at and for the years ended December 31, 2011 and 2010. These consolidated financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in note 3 below. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

The preparation of these consolidated financial statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in Valeura's annual audited consolidated financial statements for the year ended December 31, 2010 issued under Canadian GAAP. Accordingly, the IFRS accounting policies have been retrospectively and consistently applied in preparing the consolidated financial statements for the 2010 comparative periods, except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 First-time Adoption of IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20. The note includes a reconciliation of the consolidated financial statements previously prepared under Canadian GAAP to those under IFRS, for the comparative periods as at January 1, 2010 and as at and for the year ended December 31, 2010.

Operating, transportation and marketing expenses in profit or loss are presented as a combination of function and nature in conformity with industry practices. Depletion and depreciation and finance expenses are presented in a separate line by their nature, while net administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and stock-based compensation are presented by their nature in the notes to the financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on March 21, 2012.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial and non-financial assets and liabilities, which have been measured at fair value. The methods used to measure fair value are discussed in note 4.

The Company's consolidated financial statements include the accounts of Valeura and its subsidiaries and are expressed in Canadian Dollars, unless otherwise stated.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian Dollars which is Valeura's reporting currency. Valeura's foreign subsidiaries transact in currencies other than the Canadian Dollar and have a functional currency of Turkish Lira. 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. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the audited consolidated financial statements:

(i) Reserves

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets and liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Valeura's petroleum and natural gas interests are independently evaluated by reserve engineers annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon a reasonable assessment of the future economics of such production, a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production, and evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. Valeura's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

(ii) Identification of cash-generating units

Valeura's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(iii) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Key sources of estimation uncertainty:

The following are key assumptions concerning the sources of estimation uncertainty at the end of the year, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

(i) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(ii) Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets, and impairment charges and reversal will affect profit or loss.

(iii) Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except where specific exemptions permitted an alternative treatment on transition to IFRS in accordance with IFRS-1, and have been applied consistently by the Company and its subsidiaries.

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

(a) Basis of consolidation

(iv) Subsidiaries:

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

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

(v) Jointly controlled operations and jointly controlled assets:

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

(vi) Transactions eliminated on consolidation:

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

(b) Financial instruments

(i) Non-derivative financial instruments:

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

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

(ii) Share capital:

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

(c) Goodwill

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

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

(i) Recognition and measurement:

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

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

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

Development and production costs:

Items of property, plant and equipment ("PP&E"), which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cash Generating Units ("CGU" or "CGUs") for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (components).

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

(ii) Subsequent costs:

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

(iii) Depletion and depreciation:

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

Other corporate assets are recorded at cost on acquisition and amortized on a declining-balance basis at rates of 20 percent to 50 percent per year.

(iv) Exploration and evaluation expense:

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

(e) Impairment

(i) Financial assets:

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

(ii) Non-financial assets:

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

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

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

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

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

(f) Share based payments

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

(g) Provisions

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

(i) Decommissioning obligations:

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

(h) Revenue

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

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

(i) Finance income and expenses

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

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

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

(j) Income tax

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(k) Earnings per share

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

(l) Flow through shares

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

(m) Recent accounting standards and interpretations issued but not yet effective

IFRS-7 Financial Instruments includes amendments issued by the IASB on Disclosures – Transfers of Financial Assets that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosure where transfers of financial assets are not evenly distributed throughout the period. These amendments are effective for annual periods beginning on or after July 1, 2011. The adoption of this standard is not expected to have an impact on the Corporation’s financial statements.

IFRS-9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition. IFRS-9 is expected to be published in three parts. The first part, Phase 1 – classification and measurement of financial instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Phase 1 simplifies the measurement of financial assets by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. Phase 1 is effective for periods beginning on or after January 1, 2013, although earlier adoption is allowed. Except for certain additional disclosures, the adoption of this standard is not expected to have an impact on the Corporation’s financial statements.

In 2011, the International Accounting Standards Board ("IASB") issued the following new and revised IFRSs effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted providing that IFRS-10, IFRS-11, IFRS-12, IAS-27 and IAS-28 are adopted together, except that IFRS-12 may be adopted earlier. Valeura is currently assessing the impact of adopting these pronouncements; however, it anticipates that these standards will not have a material impact on the Corporation's financial statements.

IFRS-10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS-10 replaces those parts of IAS-27 Consolidated and Separate Financial Statements (revised 2011) that address when and how an entity should prepare consolidated financial statements and replaces SIC-12 Consolidation – Special Purpose Entities in its entirety. IAS-27 retains the current guidance for separate financial statements.

IFRS-11 Joint Arrangements provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS-11 supersedes IAS-31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. IAS-28 Investments in Associates and Joint Ventures (revised 2011) has been amended to conform to changes based on the issuance of IFRS-10 and IFRS-11.

IFRS-12 Disclosure of Interests in Other Entities requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The effective date of IFRS-12 is January 1, 2013 but entities are permitted to incorporate any of the new disclosures in their financial statements before that date.

IFRS-13 Fair Value Measurement establishes a single framework for measuring fair values. This standard applies to all transactions and balances (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS-2 Share-based Payment and leasing transactions within the scope of IAS-17 Leases. IFRS-13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements.

4. Determination of Fair Values

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

(i) Property, plant and equipment ("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.

(Stated in Canadian Dollars)

(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 December 31, 2011 and December 31, 2010, the fair value of these balances approximated their carrying values due to their short term to maturity.

(iii) Stock options:

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

5. Corporate and Asset Acquisitions

(a) Acquisition of Northern Hunter Energy Inc. ("Northern Hunter")

On April 9, 2010, Valeura closed a Plan of Arrangement ("Arrangement") with Northern Hunter to acquire its issued and outstanding shares. Transaction costs of $818,592 were expensed for the year ended December 31, 2010. The purchase price was a total of 6,728,584 Valeura common shares. As the shareholders of Northern Hunter acquired greater than 50 percent of the shares in the merged entity, the acquisition was 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 the acquisition had occurred on January 1, 2010, the consolidated petroleum and natural gas sales and net loss figures for Valeura for the year ended December 31, 2010 would have been as follows:

		As Stated		Valeura Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	3,234,538	$	215,273	$	3,449,811
Net loss	$	(11,424,138)	$	(1,365,248)	$	(12,789,386)

(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:

(Stated in Canadian Dollars)

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 December 31, 2011:

Natural gas sales	$	2,482,714
Royalties		(308,815)
Production expenses		(1,074,464)
	$	1,099,435

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 year ended December 31, 2011 would have been as follows:

		As Stated		Edirne Assets Prior to Acquisition		Proforma
Petroleum and natural gas sales	$	16,725,345	$	836,311	$	17,561,656
Net loss	$	(15,776,432)	$	(45,344)	$	(15,821,776)

(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 December 31, 2011:

Petroleum and natural gas sales	$	12,267,459
Royalties		(1,656,971)
Production expenses		(1,542,638)
	$	9,067,850

(Stated in Canadian Dollars)

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 year ended December 31, 2011 would have been as follows:

	As Stated	TBNG Assets Prior to Acquisition	Proforma
Petroleum and natural gas sales	$ 16,725,345	$ 11,143,387	$ 27,868,732
Net loss	$ (15,776,432)	$ 3,351,876	$ (12,424,556)

Transaction costs of $1,935,187 were expensed for the year ended December 31, 2011 (December 31, 2010 – $105,893), 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.

6. Exploration and Evaluation Assets

Cost or deemed cost	Total
Balance, January 1, 2010	$ -
Additions	6,089,339
Exploration and evaluation expense	(699,919)
Balance, December 31, 2010	5,389,420
Edirne asset acquisition *(note 5)*	666,300
TBNG asset acquisition *(note 5)*	35,037,080
Additions	12,872,699
Capitalized stock-based compensation	161,923
Transfer to property, plant and equipment *(note 7)*	(2,954,375)
Exploration and evaluation expense	(4,429,512)
Effects of movements in exchange rates	(4,693,398)
Balance, December 31, 2011	**$ 42,050,137**

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, by allocating the E&E assets to appropriate CGUs.

(c) Exploration and evaluation assets

The Company spent $48,738,002 on E&E assets in Turkey and $4,429,512 on E&E expenses in Turkey during the year ended December 31, 2011.

(Stated in Canadian Dollars)

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 impacted 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, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company fulfilling its minimum obligation to earn an interest in 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.

7. Property, Plant and Equipment

Cost or deemed cost	Total
Balance, January 1, 2010	$ 11,415,791
Additions	838,014
Corporate acquisition *(note 5)*	1,083,390
Change in decommissioning obligations *(note 9)*	39,485
Capitalized stock-based compensation	29,755
Balance, December 31, 2010	13,406,435
Edirne asset acquisition *(note 5)*	1,594,370
TBNG asset acquisition *(note 5)*	34,558,872
Additions	4,264,288
Transfer from exploration and evaluation assets *(note 6)*	2,954,375
Change in decommissioning obligations *(note 9)*	1,670,036
Effects of movements in exchange rates	(4,725,132)
Balance, December 31, 2011	**$ 53,723,244**

Accumulated depletion and depreciation	Total
Balance, January 1, 2010	$ -
Depletion and depreciation expense	1,396,032
Impairment	1,321,234
Balance, December 31, 2010	2,717,266
Depletion and depreciation expense	9,933,931
Impairment	1,476,000
Effects of movements in exchange rates	(366,349)
Balance, December 31, 2011	**$ 13,760,848**

Net book value	Total
Balance, January 1, 2010	$ 11,415,791
Balance, December 31, 2010	$ 10,689,169
Balance, December 31, 2011	**$ 39,962,396**

(Stated in Canadian Dollars)

(a) Impairment testing

IFRS requires an impairment test to assess the recoverable value of PP&E within each CGU upon initial adoption and, subsequently, annually or whenever there is an indication of impairment. The recoverable amount of each CGU is based on the higher of value-in-use or fair value less costs to sell.

The estimates of fair value less costs to sell were determined based on the net present value of each CGUs oil and gas reserves using:

(i) proved plus probable reserves estimated by Valeura's independent reserves evaluators

(ii) the year-end commodity price forecast of our independent reserves evaluators, adjusted for commodity price differentials specific to Valeura's assets

(iii) discounted at an estimated market rate

Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

(i) Reserves – assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

(ii) Oil and natural gas prices – forward price estimates of the oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.

(iii) Discount rate – the discount rate used to calculate the net present value of cash flows is based on estimates of asset sales in Canada and Turkey during 2011. Asset sale values can fluctuate significantly, affecting the discount rate used to determine the net present value of cash flows.

Impairment tests carried out at December 31, 2011 on each Canadian CGU were based on fair value less costs to sell, using a discount rate of 10 percent, an inflation rate of 2 percent and the following forward commodity price estimates:

Canada	Foreign Exchange Rate (US$/CDN$)	Natural Gas AECO Spot (CDN$/mmbtu)	Edmonton Light Crude Oil (CDN$/bbl)	Bow River Crude Oil at Hardisty (CDN$/bbl)
2012	0.980	3.49	97.96	83.27
2013	0.980	4.13	101.02	84.35
2014	0.980	4.59	101.02	84.35
2015	0.980	5.05	101.02	84.35
2016	0.980	5.51	101.02	84.35
2017	0.980	5.97	101.02	84.35
2018	0.980	6.21	102.40	85.50
2019	0.980	6.33	104.47	87.23
2020	0.980	6.46	106.58	89.00
2021	0.980	6.58	108.73	90.79
Thereafter	0.980	+2.0 percent/year	+2.0 percent/year	+2.0 percent/year

The carrying value of the producing Grand Forks and Minor Properties CGUs exceeded their respective fair values less costs to sell resulting in an impairment of $1,610,495 in 2011. The remaining amount of goodwill attributed to the producing Minor Properties CGU was eliminated, reducing the Company's goodwill by $134,495 to zero. PP&E was reduced by $1,476,000.

(Stated in Canadian Dollars)

Valeura estimated the recoverable amount was greater than the net book value for each CGU upon initial adoption of IFRS at January 1, 2010. On December 31, 2010, the carrying value of the producing Grand Forks, Harmattan and Minor Properties CGUs exceeded their respective fair values less costs to sell resulting in an impairment of $1,478,228 in 2010. Goodwill attributed to the producing Minor Properties CGU was reduced by $156,994 and PP&E attributed to the producing Grand Forks and Harmattan CGUs was reduced by $1,321,234.

The impairment of PP&E may be reversed if the fair value of the producing Grand Forks and Harmattan CGUs increases in future periods, but the impairment of goodwill attributed to the producing Minor Properties CGU cannot be reversed.

Impairment tests carried out at December 31, 2011 on each Turkish CGU were based on fair value less costs to sell, using a discount rate of 10 percent, an inflation rate of 2 percent and the following forward commodity price estimates:

Turkey	Natural Gas Thrace Basin (US$/mcf)	Natural Gas Edirne (US$/mcf)	Oil and Condensate (US$/bbl)
2012	7.43	6.77	108.00
2013	7.34	6.69	106.64
2014	7.39	6.73	107.41
2015	7.45	6.79	108.26
2016	7.44	6.78	108.08
2017	7.58	6.91	110.24
2018	7.74	7.05	112.45
2019	7.89	7.19	114.70
2020	8.05	7.33	116.99
2021	8.21	7.48	119.33
2022	8.37	7.63	121.72
2023	8.54	7.78	124.15
Thereafter	+2.0 percent/year	+2.0 percent/year	+2.0 percent/year

The following tables summarize amounts recognized as impairment for goodwill and PP&E assets:

	Total
Impairment, January 1, 2010	$ -
Impairment of goodwill *(note 20(K))*	156,994
Impairment of PP&E assets	1,321,234
Cumulative impairment, December 31, 2010	1,478,228
Impairment of goodwill	134,495
Impairment of PP&E assets	1,476,000
Cumulative impairment, December 31, 2011	**$ 3,088,723**

(b) Sensitivity of recoverable amounts

As at December 31, 2011, a one percent increase in the assumed discount rate would result in an additional impairment of PP&E of $305,000, while there would be no change to the impairment of goodwill attributed to the Minor Properties CGU. A five percent decrease in the forward price estimates would result in additional impairment of PP&E of $1,122,000, while there would be no change to the impairment of goodwill attributed to the Minor Properties CGU.

(Stated in Canadian Dollars)

As at December 31, 2011, a one percent decrease in the assumed discount rate would result in a reduction in impairment of PP&E of $265,000 and the impairment of goodwill being reduced by $55,000 to $79,495. A five percent increase in the forward price estimates would result in a reduction in impairment of PP&E of $838,000 and the impairment of goodwill being reduced by $134,495.

(c) 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.

(d) Canada

For the purposes of calculating depletion, petroleum and natural gas properties in Canada include estimated future development costs of $2,941,000 (December 31, 2010 – $2,981,000) associated with the development of the Company's proved plus probable reserves.

(e) Turkey

The Company closed the Edirne asset acquisition in Turkey (see note 5) acquiring developed and producing assets in the amount of $1,594,370, including $314,220 of non-cash decommissioning obligations. Estimated future development costs of $293,246 associated with development of the Edirne asset are included in the Edirne depletion calculation.

The Company also closed the TBNG asset acquisition in Turkey (see note 5) 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 of $6,462,358 associated with development of the TBNG assets are included in the TBNG asset depletion calculation.

8. Credit Facilities

On December 31, 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 percent per annum and a $1,000,000 development demand loan with an interest rate of bank prime plus 1.50 percent 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 December 31, 2011 the Company had not drawn an amount on either the revolving operating or development demand loans and is in compliance with all covenants. On February 22, 2012, the Company closed its Canadian credit facilities due to lack of utilization.

9. Decommissioning Obligations

	December 31, 2011	December 31, 2010
Decommissioning obligations, beginning of period	**$ 594,994**	$ 253,900
Obligations acquired during acquisitions *(note 5)*	**5,980,465**	324,217
Obligations incurred	**405,040**	39,485
Obligations settled	**(56,064)**	(33,750)
Change in estimates	**1,264,996**	-
Accretion of decommissioning liabilities *(note 14)*	**65,890**	11,142
Effects of movements in exchange rates	**(814,782)**	-
Decommissioning obligations, end of period	**$ 7,440,539**	$ 594,994

(Stated in Canadian Dollars)

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:

	December 31, 2011	December 31, 2010
Undiscounted cash flows	**$ 7,244,878**	$ 656,983
Risk free rate – Turkey	**8.5%**	-
Risk free rate – Canada	**1.0% – 1.7%**	3.5%
Inflation rate – Turkey	**9.0%**	-
Inflation rate – Canada	**2%**	2%
Timing of cash flows	**2-19 years**	1-12 years

10. Income Taxes

A reconciliation of the expected tax expense (recovery) to the actual provision for deferred taxes is as follows:

	December 31, 2011	December 31, 2010
Loss before taxes	**$ (16,364,325)**	$ (11,343,438)
Combined federal and provincial tax rate	**26.50%**	28.00%
Expected income tax recovery	**(4,336,546)**	(3,176,163)
Non-deductible items	**620,482**	1,395,371
Tax rate changes and other	**(226,062)**	245,892
Difference between Canadian and Turkish tax rates	**191,065**	44,365
Change in unrecognized deferred tax assets	**3,163,168**	1,571,235
Deferred income tax	**$ (587,893)**	$ 80,700

The deferred income tax rate applied to the temporary differences in both 2011 and 2010 was 25.0 percent, compared to the combined federal and provincial statutory rates of 26.5 percent for the 2011 taxation year and 28.0 percent for the 2010 taxation year. The general combined federal and provincial tax rate decreased due to a reduction in the federal rate from 18.0 percent in 2010 to 16.5 percent in 2011. The Turkish tax rate for 2011 and 2010 is 20.0 percent.

The components of the deferred tax liability are as follows:

	December 31, 2011	December 31, 2010
Property, plant and equipment and exploration and evaluation assets	**$ (9,666,979)**	$ -
Decommissioning obligations	**1,355,373**	-
Non-capital losses and other	**2,236**	-
	$ (8,309,370)	$ -

(Stated in Canadian Dollars)

The components of the unrecognized deferred tax assets are as follows:

	December 31, 2011	December 31, 2010
Property, plant and equipment and exploration and evaluation assets	**$ 3,120,384**	$ 3,595,800
Share issuance costs	**5,716,452**	1,800,220
Decommissioning obligations	**663,668**	594,992
Non-capital losses and other	**20,603,352**	8,105,880
	$ 30,103,856	$ 14,096,892

The Company's assets have an approximate tax basis of $50.7 million at December 31, 2011 (December 31, 2010 - $23.9 million) available for deduction against future taxable income. The December 31, 2011 cumulative non-capital loss carryforwards of $21.0 million (December 31, 2010 - $7.6 million) expire between 2016 and 2031.

A continuity of the deferred income tax asset (liability) for 2010 and 2011 is detailed in the following tables:

Movement in temporary differences during the year	Balance January 1, 2010	Recognized in profit or loss	Due to flow-through shares	Balance December 31, 2010
Property, plant and equipment and exploration and evaluation assets	$ 297,140	$ 660,310	$ (58,500)	$ 898,950
Share issuance costs	32,547	417,508	-	450,055
Provisions	46,625	102,123	-	148,748
Non-capital losses	227,450	1,799,020	-	2,026,470
Unrecognized deferred tax assets	(464,562)	(3,059,661)	-	(3,524,223)
	$ 139,200	$ (80,700)	$ (58,500)	$ -

Movement in temporary differences during the year	Balance January 1, 2011	Recognized in profit or loss	Acquired in asset acquisitions	**Balance December 31, 2011**
Property, plant and equipment and exploration and evaluation assets	$ 898,950	$ (888,570)	$ (8,897,263)	**$ (8,886,883)**
Share issuance costs	450,055	979,058	-	**1,429,113**
Provisions	148,748	1,372,542	-	**1,521,290**
Non-capital losses	2,026,470	3,126,604	-	**5,153,074**
Unrecognized deferred tax assets	(3,524,223)	(4,001,741)	-	**(7,525,964)**
	$ -	$ 587,893	$ (8,897,263)	**$ (8,309,370)**

Deferred income tax is a non-cash item relating to the temporary differences between the accounting and tax basis of Valeura's assets and liabilities and has no immediate impact on the Company's cash flows.

(Stated in Canadian Dollars)

11. Administrative Expenses

The components of administrative expenses are as follows:

For the years ended	December 31, 2011	December 31, 2010
Cash:		
Salaries and benefits [1]	$ 2,117,553	$ 777,756
Other [2]	4,721,008	2,619,248
	6,838,561	3,397,004
Operating and overhead recoveries	(25,721)	(21,083)
Capitalized overhead [3]	(220,391)	(80,141)
General and administrative, net	6,592,449	3,295,780
Non-cash:		
Stock-based compensation *(note 12)*	2,638,778	4,768,754
Capitalized stock-based compensation [3]	(161,923)	(29,756)
Stock-based compensation, net	2,476,855	4,738,998
Total administrative expenses, net	$ 9,069,304	$ 8,034,778

(1) Includes salaries, benefits and bonuses earned by all Directors, Officers and employees of the Company.
(2) Includes costs such as rent, legal, consulting, insurance, travel, office, business development and other business expenses incurred by the Company.
(3) Includes a portion of salaries, benefits and stock-based compensation directly attributable to the exploration and development activities of the Company.

Compensation for Executive Officers and Directors are comprised of the following:

For the years ended	December 31, 2011	December 31, 2010
Salaries and benefits [1]	$ 1,103,814	$ 506,488
Stock-based compensation [2]	2,048,463	(33,750)
Executive Officers and Directors compensation	$ 3,152,277	$ 472,738

(1) Includes salaries, benefits and bonuses earned by Executive Officers and Directors comprised of: Chairman of the Board, President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President of Operations, Vice President of Engineering and other independent Directors.
(2) Represents the amortization of stock-based compensation expense in the year associated with options granted to Executive Officers and Directors participating in the Company's Stock Option Plan.

12. 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.

(Stated in Canadian Dollars)

(c) Issued

Common shares	Number of Shares	Amount
Northern Hunter prior to reverse take-over:		
Balance, January 1, 2010	1,403,041	$ 11,076,280
Issued on exercise of options	80,900	759,550
Contributed surplus on option exercise	-	135,841
Issued on contract termination	11,300	64,410
Balance, April 9, 2010	1,495,241	12,036,081
Conversion of Northern Hunter to Valeura *(note 5)*:		
Balance, April 9, 2010	6,728,584	12,036,081
Issued on reverse take-over *(note 5)*	4,994,179	6,325,960
Issued pursuant to private placement [(i)]	3,000,000	6,000,000
Issued pursuant to private placement [(ii)]	5,110,000	24,017,000
Issued for services received [(iii)]	34,950	98,560
Share issuance costs	-	(1,503,577)
Balance, December 31, 2010	19,867,713	$ 46,974,024
Shares issued pursuant to private placement *(note 12(d))*	26,538,435	80,278,766
Rounding due to consolidation	(13)	-
Share issuance costs	-	(5,194,106)
Balance, December 31, 2011	**46,406,135**	**$ 122,058,684**

(i) As a condition of the completion of the Arrangement, Valeura completed a private placement of 3,000,000 common shares to the current directors, officers, employees and certain consultants and certain other accredited investors at a price of $2.00 per share. The private placement was completed on April 9, 2010 for proceeds of $6,000,000.

(ii) On April 16, 2010, Valeura closed a private placement financing of 5,110,000 common shares at a price of $4.70 per share for aggregate proceeds of $22,513,423 (net of share issuance costs of $1,503,577).

(iii) On September 8, 2010, Valeura issued 34,950 common shares at a deemed value of $2.82 per share to fully satisfy a success fee payable upon closing of a Turkish joint venture agreement.

(d) 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 percent 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.

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.

(Stated in Canadian Dollars)

The share purchase 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 (%)	-

Total gross proceeds from the private placement of subscription receipts, including commons shares and share purchase warrants, was $86,249,914 with share issuance costs of $5,194,106.

(e) 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 year ended December 31, 2011 is 34,845,556 (December 31, 2010 – 15,821,290). The average number of common shares outstanding was not increased for outstanding stock options and performance warrants as the effect would be anti-dilutive.

(f) 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 December 31, 2011	**2,796,750**	**$ 2.00**
Exercisable at December 31, 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.

(Stated in Canadian Dollars)

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 December 31, 2011:

Exercise prices	Outstanding at December 31, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2011	Weighted average exercise price
$2.00	2,796,750	3.0	$ 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 (%)	-

(g) 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, December 31, 2011	**2,315,861**	**$ 2.66**
Exercisable at December 31, 2011	**356,168**	**$ 2.15**

(Stated in Canadian Dollars)

The following table summarizes information about the post-consolidation stock options outstanding at December 31, 2011:

Exercise prices	Outstanding at December 31, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at December 31, 2011	Weighted average exercise price
$2.00 - $2.20	1,160,500	5.3	$ 2.03	319,500	$ 2.00
$3.25	1,023,361	6.5	$ 3.25	-	$ -
$3.40 - $3.65	132,000	5.9	$ 3.52	36,668	$ 3.50
	2,315,861	5.9	$ 2.66	356,168	$ 2.15

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 (%)	1.2 – 2.7
Expected life (years)	4.5
Expected volatility (%)	100 – 110
Forfeiture rate (%)	5
Expected dividend yield (%)	-

13. Supplemental Cash Flow Information

	December 31, 2011	December 31, 2010
Change in non-cash working capital:		
Accounts receivable	**$ (12,104,626)**	$ (1,321,015)
Prepaid expenses and deposits	**15,332**	(13,609)
Accounts payable and accrued liabilities	**7,013,193**	(999,171)
Movements in exchange rates	**(778,653)**	-
	(5,854,754)	(2,333,795)

The change in non-cash working capital has been allocated to the following activities:

Operating	**(2,165,733)**	(164,609)
Financing	**-**	-
Investing	**(3,689,021)**	(2,169,186)
	$ (5,854,754)	$ (2,333,795)
Supplementary cash flow information:		
Interest paid	**$ -**	$ 51,243

(Stated in Canadian Dollars)

14. Financing Expenses

	December 31, 2011	December 31, 2010
Accretion of decommissioning obligations	$ 65,890	$ 11,142
Interest expense	-	51,243
	$ 65,890	$ 62,385

15. Segmented Information

	December 31, 2011	December 31, 2010
Petroleum and natural gas revenue		
Canada	$ 1,975,172	$ 3,234,538
Turkey	14,750,173	-
	16,725,345	3,234,538
Net loss		
Canada	(12,083,386)	(10,869,578)
Turkey	(3,693,046)	(554,560)
	(15,776,432)	(11,424,138)
Capital expenditures		
Canada	378,136	1,537,933
Turkey	72,429,924	5,389,420
	72,808,060	6,927,353
Total assets		
Canada	37,037,031	30,710,676
Turkey	83,664,869	7,456,074
	$ 120,701,900	$ 38,166,750

16. Financial Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at year-end is as follows:

	December 31, 2011	December 31, 2010
Trade and other receivables	**$ 14,369,218**	$ 2,264,592

Trade and other receivables:

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms that are specific by country. Receivables from Canadian petroleum and natural gas marketers are normally collected on the 25th day of the month following production, and receivables from Turkish petroleum and natural gas marketers are normally collected on the 45th day of the month following production. The Company's policy to mitigate credit risk associated with the balances is to establish marketing relationships with large credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure.

Receivables from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can cash call for major projects and does have the ability, in most cases, to withhold production from joint venture partners in the event of non-payment, or withhold accounts payable remittances.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2011 the Company's receivables consisted of $6.8 million (2010 - $0.3 million) of receivables from petroleum and natural gas marketers which has been substantially collected, $1.3 million (2010 - $nil) from the Turkish Tax Authorities for previously paid corporate tax installments, $5.8 million (2010 - $1.9 million) from joint venture partners of which $5.6 million has been subsequently collected or transferred to capital, and $0.5 million (2010 - $0.1 million) of other accounts receivable. The Company does not consider any receivables to be past due.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

Foreign currency exchange rate risk:

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's petroleum and natural gas sales are conducted primarily in Turkey and are denominated in Turkish Lira. As such, the Company is exposed to any fluctuations in the Turkish Lira to Canadian Dollar exchange rate. A portion of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian Dollars.

Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not currently exposed to interest rate risk as it has no debt.

Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian Dollar and Turkish Lira, the Canadian Dollar and United States Dollar, and global economic events that dictate the levels of supply and demand.

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year. The Company maintains and monitors a certain level of cash flow which is used to finance all operating and capital expenditures.

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 and shareholders' equity. Currently, total capital resources available include working capital and funds flow from operations.

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 relinquished credit facility with its lender to maintain an adjusted working capital ratio of not less than 1 to 1. At December 31, 2011, the Company's adjusted working capital ratio was 4.4 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 second 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.

17. Related Party Transactions

(a) During the year ended December 31, 2011 the Company incurred legal fees of $987,633 (December 31, 2010 - $1,217,516) from a legal firm in which a partner acts as the Company's Corporate Secretary.

(b) During the year ended December 31, 2011, the Company incurred $nil (December 31, 2010 - $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.

18. Commitments

Valeura entered into a binding letter agreement on November 14, 2011 to acquire a 24 percent participating interest in three exploration licenses in Turkey for US$1.5 million. Licenses 3998, 3999 and 4187 cover 242,440 gross acres (58,168 net acres) in the western reaches of the Thrace Basin and are contiguous with Valeura's existing acreage and extending to the Greece border. This acquisition closed in early 2012 (see note 19 – subsequent events). The transfer of license interests to the Company by the General Directorate of Petroleum Affairs ("GDPA") of the Republic of Turkey occurred in early March 2012.

Further to the above binding letter agreement, and in accordance with Valeura's original AME-GYP farm-in agreement, the Company acquired a 27.5 percent participating interest in Karakilise Licenses 2674 and 2677 in the Anatolian Basin. Under the terms of the binding letter agreement, Valeura will fund the first $US1.3 million of the cost to deepen the Altiknakar-1 well to the primary exploration target of light oil in the Bedinian formation at a depth of 2,500 meters. Valeura previously funded the drilling of the original well to a depth of approximately 1,562 meters in early 2011. The total cost of the deepening operation is expected to be approximately US$2.0 million (gross) or US$1.5 million (net). Deepening operations were completed in February 2012 and testing operations are underway. The GDPA approved the transfer of the licenses interest to the Company in early March 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$4.0 to US$4.5 million in 2012.

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 drilled the first well, Dagdere-1, in February-2012 and plans to drill the second well in 2012.

The ultimate recovery of plant, property and equipment and exploration and evaluation costs in Turkey is dependent upon the Company fulfilling its obligations outlined above and upon the existence and commercial exploitation of petroleum and natural gas reserves on undeveloped lands. Uncertainties affect the recoverability of costs as this recovery 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.

19. Subsequent Events

On January 16, 2012, Valeura closed its previously announced acquisition of a 24 percent participating interest in three exploration licenses in Turkey (see note 18). The Company paid US$1.5 million for the three licenses combined and received GDPA approval for the license transfers in early March 2012.

On February 22, 2012, the Company closed its Canadian credit facilities due to lack of utilization (see note 8).

20. 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 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011 and the comparative information for the year ended December 31, 2010.

In preparing its opening January 1, 2010 IFRS balance sheet and comparative information for the year ended December 31, 2010, the Company adjusted amounts previously reported in its 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.

(Stated in Canadian Dollars)

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

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

(Stated in Canadian Dollars)

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

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

(Stated in Canadian Dollars)

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

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Revenue				
Petroleum and natural gas sales	$ 3,234,538	$ -		$ 3,234,538
Royalties	(280,187)	-		(280,187)
Other income	118,333	-		118,333
	3,072,684	-		3,072,684
Expenses				
Production	1,662,365	-		1,662,365
Transportation	81,205	-		81,205
General and administrative	3,215,639	80,141	I	3,295,780
Transaction costs	1,124,485	(200,000)	L	924,485
Interest	51,243	-		51,243
Foreign exchange loss	76,522	203	J	76,725
Financing	21,573	(10,431)	F	11,142
Stock-based compensation	2,960,948	1,778,050	H	4,738,998
Exploration and evaluation	-	699,919	E	699,919
Depletion and depreciation	3,013,700	(1,617,668)	C,D	1,396,032
Impairment	-	1,478,228	C	1,478,228
	12,207,680	2,208,442		14,416,122
Loss before income taxes	(9,134,996)	(2,208,442)		(11,343,438)
Deferred tax expense	-	(80,700)	G	(80,700)
Net loss	$ (9,134,996)	$ (2,289,142)		$ (11,424,138)
Other comprehensive income				
Currency translation adjustments	-	203		203
Comprehensive loss	$ (9,134,996)	$ (2,288,939)		$ (11,423,935)
Net loss per share				
Basic	$ (0.46)			$ (0.72)
Diluted	$ (0.46)			$ (0.72)

(Stated in Canadian Dollars)

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

	Previous GAAP	Effect of transition to IFRS	Note	IFRS
Cash was provided by (used in):				
Operating activities:				
Net loss for the year	$ (9,134,996)	$ (2,288,939)		$ (11,424,138)
Depletion, and depreciation	3,013,700	(1,617,668)	C,D	1,396,032
Impairment	-	1,478,228	C	1,478,228
Financing expenses	21,573	(10,431)	F	11,142
Exploration and evaluation expense	-	699,919	E	699,919
Stock-based compensation	2,960,948	1,778,050	H	4,738,998
Deferred transaction costs	200,000	(200,000)	L	-
Shares issued for services	162,970	-		162,970
Unrealized foreign exchange loss	76,522	-		76,725
Deferred tax expense	-	80,700	G	80,700
Decommissioning costs incurred	(33,750)	-		(33,750)
Change in non-cash working capital	(164,609)	-		(164,609)
	(2,897,642)	(80,141)		(2,977,783)
Financing activities:				
Issuance of shares, net of share issue costs	29,272,973	-		29,272,973
Net change in credit facility	(3,759,592)	-		(3,759,592)
	25,513,381	-		25,513,381
Investing activities:				
Cash received on acquisition	6,043,902	-		6,043,902
Property and equipment expenditures	(7,007,494)	6,169,480	I	(838,014)
Exploration and evaluation assets	-	(6,089,339)	B,E	(6,089,339)
Change in non-cash working capital	(2,169,186)	-		(2,169,186)
	(3,132,778)	80,141		(3,052,637)
Foreign exchange on cash held in foreign currencies	(22,650)	-		(22,650)
Net change in cash and cash equivalents	19,460,311	-		19,460,311
Cash and cash equivalents, beginning of year	-	-		-
Cash and cash equivalents, end of year	$ 19,460,311	$ -		$ 19,460,311

Impact of Transition to IFRS on 2010 Results:

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

(B) Exploration and Evaluation assets – as required under IFRS 6, Valeura reclassified $5,389,420 at December 31, 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. Impairment expense of $1,478,228 was recognized for the year ended December 31, 2010.

(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 decrease in depletion and depreciation expense of $1,617,668 for the year ended December 31, 2010.

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

(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 $10,431 for the year ended December 31, 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 year ended December 31, 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 was 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.

(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 $80,141 of G&A expenses being recorded for the year ended December 31, 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 the year ended December 31, 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 year ended December 31, 2010 are reduced by $200,000.