valeura energy inc.

Interim consolidated financial statements

Three months ended March 31, 2012 and 2011

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valeura energy inc.

Consolidated Statements of Financial Position

(stated in Canadian Dollars, unaudited)	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 22,299,882	$ 24,106,718
Accounts receivable	10,870,518	14,369,218
Prepaid expenses and deposits	372,105	213,431
	33,542,505	38,689,367
Exploration and evaluation assets *(note 3)*	49,794,304	42,050,137
Property, plant and equipment *(note 4)*	38,794,816	39,962,396
	$ 122,131,625	$ 120,701,900
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 9,473,858	$ 9,269,892
Decommissioning obligations	7,746,003	7,440,539
Deferred taxes	8,929,828	8,309,370
Shareholders' Equity		
Share capital *(note 5)*	122,058,684	122,058,684
Warrants *(note 5)*	5,971,148	5,971,148
Contributed surplus	8,113,312	7,652,735
Accumulated other comprehensive loss	(5,371,509)	(7,550,909)
Deficit	(34,789,699)	(32,449,559)
	95,981,936	95,682,099
	$ 122,131,625	$ 120,701,900

See accompanying notes to the condensed interim consolidated financial statements

See Commitments *(note 7)*
See Subsequent Events *(note 8)*

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Consolidated Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2012 and 2011

(stated in Canadian Dollars, unaudited)	**March 31, 2012**	March 31, 2011
Revenue		
Petroleum and natural gas sales	**$ 6,810,184**	$ 562,132
Royalties	**(967,898)**	(56,280)
Other income	**109,243**	41,930
	5,951,529	547,782
Expenses and other items		
Production	**1,098,927**	373,003
General and administrative	**1,829,453**	1,488,215
Transaction costs	**-**	610,889
Financing	**154,770**	3,108
Foreign exchange loss (gain)	**(144,796)**	114,004
Share-based compensation	**372,210**	614,656
Exploration and evaluation *(note 3)*	**569,395**	1,377,650
Depletion and depreciation *(note 4)*	**3,240,541**	228,266
Impairment *(note 4)*	**888,000**	-
	8,008,500	4,809,791
Loss for the period before income taxes	**(2,056,971)**	(4,262,009)
Income taxes		
Deferred tax expense (recovery)	**283,169**	-
Net loss	**(2,340,140)**	(4,262,009)
Other comprehensive income (loss)		
Currency translation adjustments	**2,179,400**	(313)
Comprehensive loss	**(160,740)**	(4,262,322)
Net loss per share		
Basic and diluted	**$ (0.05)**	$ (0.21)
Weighted-average number of shares outstanding	**46,406,135**	19,867,713

See accompanying notes to the condensed interim consolidated financial statements

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Consolidated Statements of Cash Flows
For the three months ended March 31, 2012 and 2011

(stated in Canadian Dollars, unaudited)	**March 31, 2012**	March 31, 2011
Cash was provided by (used in):		
Operating activities:		
Net loss for the period	**$ (2,340,140)**	$ (4,262,009)
Depletion and depreciation	**3,240,541**	228,266
Impairment	**888,000**	-
Exploration and evaluation expense *(note 3)*	**569,395**	1,377,650
Share-based compensation	**372,210**	614,656
Financing expenses	**154,770**	3,108
Unrealized foreign exchange loss (gain)	**(229,026)**	114,004
Deferred tax expense (recovery)	**283,169**	-
Decommissioning costs incurred	**(2,184)**	-
Change in non-cash working capital	**1,017,596**	(213,601)
	3,954,331	(2,137,926)
Financing activities:		
Subscription receipt proceeds	**-**	(86,249,914)
Change in non-cash working capital	**-**	84,373,160
	-	(1,876,754)
Investing activities:		
Property and equipment expenditures	**(1,837,995)**	58,428
Acquisition of Edirne assets	**-**	(1,946,450)
Exploration and evaluation expenditures	**(6,849,942)**	(2,309,940)
Change in non-cash working capital	**2,865,339**	(1,501,844)
	(5,822,598)	(5,699,806)
Foreign exchange gain (loss) on cash held in foreign currencies	**61,431**	(8,545)
Net change in cash and cash equivalents	**(1,806,836)**	(9,723,031)
Cash and cash equivalents, beginning of period	**24,106,718**	19,460,311
Cash and cash equivalents, end of period	**$ 22,299,882**	$ 9,737,280

valeura energy inc.

Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2012

(stated in Canadian Dollars, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2012	46,406,135	$122,058,684	$ 5,971,148	$ 7,652,735	$(32,449,559)	$ (7,550,909)	$ 95,682,099
Net loss for the period	-	-	-	-	(2,340,140)	-	(2,340,140)
Currency translation adjustments	-	-	-	-	-	2,179,400	2,179,400
Share-based compensation	-	-	-	460,577	-	-	460,577
March 31, 2012	**46,406,135**	**$122,058,684**	**$ 5,971,148**	**$ 8,113,312**	**$(34,789,699)**	**$(5,371,509)**	**$ 95,981,936**

(stated in Canadian Dollars, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance, January 1, 2011	19,867,713	$ 46,974,024	$ -	$ 5,013,957	$(16,673,127)	$ 203	$ 35,315,057
Net loss for the period	-	-	-	-	(4,262,009)	-	(4,262,009)
Currency translation adjustments	-	-	-	-	-	(313)	(313)
Share-based compensation	-	-	-	614,656	-	-	614,656
March 31, 2011	**19,867,713**	**$ 46,974,024**	**$ -**	**$ 5,628,613**	**$(20,935,136)**	**$ (110)**	**$ 31,667,391**

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 accompanying notes to the condensed interim 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 unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting of the International Financial Reporting Standards ("IFRS"). The unaudited condensed interim financial statements have been prepared in accordance with IFRS accounting policies and methods of computation as set forth in Valeura's audited consolidated financial statements for the year ended December 31, 2011, with the exception of certain disclosures that are normally required to be included in annual consolidated financial statements which have been condensed or omitted in the interim statements, and should be read in conjunction with Valeura's audited consolidated financial statements and MD&A for the year ended December 31, 2011.

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.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2012.

(b) Basis of measurement

These unaudited condensed interim 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 consistent with the Company's December 31, 2011 audited consolidated financial statements.

The Company's unaudited condensed interim 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 unaudited condensed interim 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 Turkish Lira functional currency. 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.

(Stated in Canadian Dollars, unaudited)

3. Exploration and Evaluation Assets

Cost		Total
Balance, December 31, 2011	$	42,050,137
Additions		6,849,942
Capitalized share-based compensation		54,787
Exploration and evaluation expense		(569,395)
Effects of movements in exchange rates		1,408,833
Balance, March 31, 2012	**$**	**49,794,304**

Exploration and evaluation ("E&E") 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").

4. Property, Plant and Equipment

Cost		Total
Balance, December 31, 2011	$	53,723,244
Additions		1,837,995
Capitalized share-based compensation		33,580
Change in decommissioning obligations		(123,908)
Effects of movements in exchange rates		1,606,004
Balance, March 31, 2012	**$**	**57,076,915**

Accumulated depletion and depreciation		Total
Balance, December 31, 2011	$	13,760,848
Depletion and depreciation expense		3,240,541
Impairment		888,000
Effects of movements in exchange rates		392,710
Balance, March 31, 2012	**$**	**18,282,099**

Net book value		Total
Balance, December 31, 2011	$	39,962,396
Balance, March 31, 2012	**$**	**38,794,816**

(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. In Canada, continued weakening in natural gas prices prompted the Company to carry out an impairment test on its Canadian assets.

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

(Stated in Canadian Dollars, unaudited)

(i) proved plus probable reserves estimated by Valeura's independent reserves evaluators;
(ii) the April 1, 2012 commodity price forecast of our independent reserves evaluators, adjusted for commodity price differentials specific to Valeura's assets; and
(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 March 31, 2012 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	2.43	94.17	80.04
2013	0.980	3.47	98.98	82.65
2014	0.980	3.93	101.02	84.35
2015	0.980	4.39	101.02	84.35
2016	0.980	4.84	101.02	84.35
2017	0.980	5.30	101.02	84.35
2018	0.980	5.72	102.40	85.50
2019	0.980	5.84	104.47	87.23
2020	0.980	5.97	106.58	89.00
2021	0.980	6.09	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 $888,000 during the three months ended March 31, 2012, with a corresponding decrease to PP&E in the amount of $888,000.

In 2011, 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. 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.

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

(Stated in Canadian Dollars, unaudited)

As there were no indicators of Impairment on the Company's Turkish CGUs at March 31, 2012, no impairment test was undertaken for the Turkish assets.

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

	Total
Impairment, December 31, 2011	$ 3,088,723
Impairment of PP&E assets	888,000
Cumulative impairment, March 31, 2012	**$ 3,976,723**

(b) Canada

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

(c) Turkey

For the purposes of calculating depletion, petroleum and natural gas properties in Turkey include estimated future development costs of $12,728,088 associated with development of the Company's proved plus probable reserves.

The ultimate recovery of property, plant and equipment and exploration and evaluation costs in Turkey is dependent upon the Company fulfilling its 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. 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.

5. Share Capital

(a) Private placement financing

As part of the private placement financing that closed on June 8, 2011, 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.

(b) Stock options

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

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

	Number of Options	Weighted average exercise price
Balance, December 31, 2011	2,315,861	2.66
Granted	943,139	2.10
Balance, March 31, 2012	**3,259,000**	**$ 2.50**
Exercisable at March 31, 2012	**680,336**	**$ 2.09**

(Stated in Canadian Dollars, unaudited)

The following table summarizes information about the stock options outstanding at March 31, 2012:

Exercise prices	Outstanding at March 31, 2012	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2012	Weighted average exercise price
$2.00 - $2.20	2,103,639	5.9	$ 2.06	639,000	$ 2.00
$3.25	1,023,361	6.2	$ 3.25	-	$ -
$3.40 - $3.65	132,000	5.6	$ 3.52	41,336	$ 3.52
	3,259,000	6.0	$ 2.50	680,336	$ 2.09

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

Fair value of stock options granted ($/share)	1.45 – 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 (%)	-

(c) Performance warrants

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

	Number of Performance Warrants	Weighted average exercise price
Balance, December 31, 2011 and March 31, 2012	**2,796,750**	**$ 2.00**
Exercisable at March 31, 2012	**2,796,750**	**$ 2.00**

The following table summarizes information about the performance warrants outstanding at March 31, 2012:

Exercise prices	Outstanding at March 31, 2012	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at March 31, 2012	Weighted average exercise price
$2.00	2,796,750	2.8	$ 2.00	2,796,750	$ 2.00

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

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

(Stated in Canadian Dollars, unaudited)

6. Segmented Information

	March 31, 2012	March 31, 2011
Petroleum and natural gas revenue		
Canada	$ 378,142	$ 478,117
Turkey	6,432,042	84,015
	6,810,184	562,132
Net income (loss)		
Canada	(3,006,009)	(2,788,669)
Turkey	665,869	(1,473,340)
	(2,340,140)	(4,262,009)
Capital expenditures		
Canada	192,282	(58,427)
Turkey	8,495,655	4,256,389
	8,687,937	4,197,962
Total assets		
Canada	31,440,325	112,634,866
Turkey	90,691,300	9,196,364
	$ 122,131,625	$ 121,831,230

7. Commitments

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 for a total cost of approximately US$1.4 million. The remaining estimated commitment is US$1.6 million.

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 drilled the first well, Evrenbey-1, in November 2011 and plans to initiate the seismic program in 2012. The remaining estimated commitment is US$4.0 to US$4.5 million.

On August 31, 2011, the Company entered into a sublease agreement for office space 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.

8. Subsequent Events

On April 3, 2012, the Company received $100,000 from a third party as payment for an option to farm-in on certain Saskatchewan lands prospective for helium.