valeura energy inc.

Condensed Interim Consolidated Financial Statements (unaudited)

Three and nine months ended September 30, 2012 and 2011

Condensed Interim Consolidated Statements of Financial Position

(stated in Canadian Dollars, unaudited)	**September 30, 2012**	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 15,578,759**	$ 24,106,718
Accounts receivable	**10,152,812**	14,369,218
Prepaid expenses and deposits	**445,046**	213,431
	26,176,617	38,689,367
Exploration and evaluation assets *(note 3)*	**59,131,076**	42,050,137
Property, plant and equipment *(note 4)*	**38,841,056**	39,962,396
	$ 124,148,749	$ 120,701,900
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 12,184,480**	$ 9,269,892
Decommissioning obligations	**8,679,084**	7,440,539
Deferred taxes	**9,113,280**	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	**9,206,377**	7,652,735
Accumulated other comprehensive loss	**(6,820,638)**	(7,550,909)
Deficit	**(36,243,666)**	(32,449,559)
	94,171,905	95,682,099
	$ 124,148,749	$ 120,701,900

See accompanying notes to the condensed interim consolidated financial statements

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

valeura energy inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2012 and 2011

	Three months ended		Nine months ended	
(stated in Canadian Dollars, unaudited)	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Revenue				
Petroleum and natural gas sales	**$ 5,858,805**	$ 5,836,765	**$ 19,532,647**	$ 9,106,090
Royalties	**(759,253)**	(765,841)	**(2,660,805)**	(1,116,025)
Other Income	**107,970**	101,109	**320,887**	285,033
	5,207,522	5,172,033	**17,192,729**	8,275,098
Expenses				
Production	**996,156**	1,311,443	**3,180,980**	2,535,982
General and administrative	**1,410,423**	1,331,660	**4,923,223**	4,540,164
Transaction costs	**-**	163,868	**-**	2,101,182
Gain on asset disposition	**(71,568)**	-	**(171,568)**	-
Financing	**154,790**	21,773	**475,200**	35,635
Foreign exchange loss	**276,967**	134,992	**45,719**	90,329
Share-based compensation	**380,465**	628,654	**1,245,595**	1,870,554
Exploration and evaluation expense (recovery) *(note 3)*	**(300)**	1,092,000	**1,129,662**	3,372,121
Depletion and depreciation *(note 4)*	**2,462,105**	4,344,183	**8,602,253**	6,224,774
Impairment *(note 4)*	**-**	-	**888,000**	-
	5,609,038	9,028,573	**20,319,064**	20,770,741
Loss for the period before income taxes	**(401,516)**	(3,856,540)	**(3,126,335)**	(12,495,643)
Income taxes				
Deferred expense (recovery)	**300,658**	(652,640)	**667,772**	(950,000)
Current	**-**	545,386	**-**	824,659
	300,658	(107,254)	**667,772**	(125,341)
Net loss	**(702,174)**	(3,749,286)	**(3,794,107)**	(12,370,302)
Other comprehensive loss				
Currency translation adjustments	**(1,960,823)**	(4,102,898)	**730,271**	(5,679,534)
Comprehensive loss	**(2,662,997)**	(7,852,184)	**(3,063,836)**	(18,049,836)
Net loss per share				
Basic and diluted	**$ (0.02)**	$ (0.08)	**$ (0.08)**	$ (0.40)
Weighted average number of shares outstanding	**46,406,135**	46,406,135	**46,406,135**	30,949,684

See accompanying notes to the condensed interim consolidated financial statements

valeura energy inc.

Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2012 and 2011

	Three months ended		Nine months ended	
(stated in Canadian Dollars, unaudited)	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Cash was provided by (used in):				
Operating activities:				
Net loss for the period	**$ (702,174)**	$ (3,749,286)	**$ (3,794,107)**	$ (12,370,302)
Depletion and depreciation	**2,462,105**	4,344,183	**8,602,253**	6,224,774
Impairment	**-**	-	**888,000**	-
Exploration and evaluation expense (recovery) *(note 3)*	**(300)**	1,092,000	**1,129,662**	3,372,121
Share-based compensation	**380,465**	628,654	**1,245,595**	1,870,554
Financing	**154,790**	21,773	**475,200**	35,635
Unrealized foreign exchange loss	**279,211**	298,505	**72,543**	253,842
Gain on asset disposition	**(71,568)**	-	**(171,568)**	-
Deferred tax expense (recovery)	**300,658**	(652,640)	**667,772**	(950,000)
Decommissioning costs incurred	**(10,684)**	-	**(12,868)**	(54,124)
Change in non-cash working capital	**1,596,225**	198,103	**1,668,347**	(5,591,317)
	4,388,728	2,181,292	**10,770,829**	(7,208,817)
Financing activities:				
Issuance of units, net of issue costs	**-**	-	**-**	81,066,022
Change in non-cash working capital	**-**	-	**-**	-
	-	-	**-**	81,066,022
Investing activities:				
Property and equipment expenditures	**(2,613,838)**	(327,432)	**(7,150,105)**	(382,137)
Acquisition of TBNG-PTI assets	**-**	-	**-**	(53,724,623)
Acquisition of Edirne assets	**-**	-	**-**	(1,946,450)
Exploration and evaluation expenditures	**(3,028,641)**	(7,515,817)	**(17,873,575)**	(11,638,607)
Proceeds on asset disposition	**89,283**	-	**189,283**	-
Change in non-cash working capital	**(1,487,380)**	6,393,475	**5,585,965**	7,609,369
	(7,040,576)	(1,449,774)	**(19,248,432)**	(60,082,448)
Foreign exchange loss on cash held in foreign currencies	**(107,772)**	(45,469)	**(50,356)**	(44,174)
Net change in cash and cash equivalents	**(2,759,620)**	686,049	**(8,527,959)**	13,730,583
Cash and cash equivalents, beginning of period	**18,338,379**	32,504,845	**24,106,718**	19,460,311
Cash and cash equivalents, end of period	**$ 15,578,759**	$ 33,190,894	**$ 15,578,759**	$ 33,190,894

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2012 and 2011

(stated in Canadian Dollars, unaudited)	Number of Shares	Share Capital	Share Purchase Warrants	Contributed Surplus	Deficit	Accumulated Other Comp. Income (Loss)	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	-	-	-	-	(3,794,107)	-	(3,794,107)
Currency translation adjustments	-	-	-	-	-	730,271	730,271
Share-based compensation	-	-	-	1,553,642	-	-	1,553,642
September 30, 2012	**46,406,135**	**$122,058,684**	**$ 5,971,148**	**$ 9,206,377**	**$(36,243,666)**	**$(6,820,638)**	**$ 94,171,905**

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

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". Valeura's principal place of business is located at 1200, 202 – 6 Avenue SW, Calgary, AB, T2P 2R9.

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 unaudited condensed interim statements, and should be read in conjunction with Valeura's audited consolidated financial statements for the year ended December 31, 2011.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Management reviews these estimates, including those related to accruals, reserves, environmental and decommissioning obligations and income taxes at each financial reporting period. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates. Readers should be aware that historical results are not necessarily indicative of future performance.

Operating, transportation and marketing expenses included 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 expense is presented on a functional basis.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 13, 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 conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities.

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.

(Stated in Canadian Dollars, unaudited)

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.

3. Exploration and Evaluation Assets

Cost	Total
Balance, December 31, 2011	$ 42,050,137
Additions	21,156,142
Transfer to property, plant and equipment *(note 4)*	(3,282,567)
Capitalized share-based compensation	202,189
Exploration and evaluation expense	(1,129,662)
Effects of movements in exchange rates	134,837
Balance, September 30, 2012	**$ 59,131,076**

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. Exploration and evaluation expense includes the Company's share of impairment on its E&E assets.

4. Property, Plant and Equipment

Cost	Total
Balance, December 31, 2011	$ 53,723,244
Additions	3,867,538
Transfer from exploration and evaluation assets *(note 3)*	3,282,567
Dispositions	(79,390)
Capitalized share-based compensation	105,858
Change in decommissioning obligations	718,398
Effects of movements in exchange rates	497,290
Balance, September 30, 2012	**$ 62,115,505**

Accumulated depletion, depreciation and impairment	Total
Balance, December 31, 2011	$ 13,760,848
Depletion and depreciation	8,602,253
Dispositions	(26,275)
Impairment	888,000
Effects of movements in exchange rates	49,623
Balance, September 30, 2012	**$ 23,274,449**

Net book value	Total
Balance, December 31, 2011	$ 39,962,396
Balance, September 30, 2012	**$ 38,841,056**

(Stated in Canadian Dollars, unaudited)

(a) Impairment testing

IFRS requires an impairment test to assess the recoverable value of PP&E within each Cash Generating Unit ("CGU") 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. During the third quarter of 2012, there were no indicators of impairment on the Company's Canadian or Turkish PP&E assets.

The carrying value of the producing Grand Forks and Minor Properties CGUs in Canada exceeded their respective fair values less costs to sell resulting in an impairment of $888,000 during the first quarter of 2012. The impairment of PP&E will be reversed if the fair value of the producing Grand Forks and Minor Properties CGUs increases in future periods.

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, September 30, 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 (December 31, 2011 - $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 $5,074,315 (December 31, 2011 - $6,462,358) associated with the 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, 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, employees and other service providers 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.

(Stated in Canadian Dollars, unaudited)

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	1,063,139	$ 2.03
Balance, September 30, 2012	**3,379,000**	**$ 2.46**
Exercisable at September 30, 2012	**1,113,125**	**$ 2.48**

The following table summarizes information about the stock options outstanding at September 30, 2012:

Exercise prices	Outstanding at September 30, 2012	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2012	Weighted average exercise price
$1.46 - $2.05	1,078,500	4.6	$ 1.94	639,000	$ 2.00
$2.06 - $2.73	1,145,139	6.4	$ 2.12	67,334	$ 2.20
$2.74 - $3.65	1,155,361	5.7	$ 3.28	406,791	$ 3.29
	3,379,000	5.6	$ 2.46	1,113,125	$ 2.48

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

	Three months ended		**Nine months ended**	
Assumptions	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Risk free interest rate (%)	**1.4**	1.3	**1.6**	2.0
Expected life (years)	**4.5**	4.5	**4.5**	4.5
Expected volatility (%)	**100.0**	100.0	**100.0**	100.0
Forfeiture rate (%)	**5.0**	5.0	**5.0**	5.0
Weighted average fair value of options	**$ 1.05**	$ 1.58	**$ 1.46**	$ 1.99

(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 September 30, 2012	**2,796,750**	**$ 2.00**
Exercisable at September 30, 2012	**2,796,750**	**$ 2.00**

(Stated in Canadian Dollars, unaudited)

The following table summarizes information about the performance warrants outstanding at September 30, 2012:

Exercise prices	Outstanding at September 30, 2012	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at September 30, 2012	Weighted average exercise price
$2.00	2,796,750	2.5	$ 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 (%)	-

6. Segmented Information

	Three months ended		Nine months ended	
	September 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Petroleum and natural gas revenue				
Canada	**$ 274,318**	$ 516,580	**$ 942,596**	$ 1,534,347
Turkey	**5,584,487**	5,320,185	**18,590,051**	7,571,743
	5,858,805	5,836,765	**19,532,647**	9,106,090
Net income (loss)				
Canada	**(1,893,005)**	(2,047,510)	**(6,351,516)**	(8,013,023)
Turkey	**1,190,831**	(1,701,776)	**2,557,409**	(4,357,279)
	(702,174)	(3,749,286)	**(3,794,107)**	(12,370,302)
Capital expenditures				
Canada	**(78,631)**	17,927	**121,809**	5,917
Turkey	**5,721,110**	7,825,322	**24,901,871**	67,685,900
	$ 5,642,479	$ 7,843,249	**25,023,680**	67,691,817
Total assets				
Canada			**22,400,846**	49,663,426
Turkey			**101,747,903**	80,433,381
			$ 124,148,749	$ 130,096,807

7. Commitments

On May 4, 2011, the Company entered into a farm-in agreement 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. As at September 30, 2012, the remaining commitment is approximately US$1.6 million.

On June 13, 2011, the Company entered into a farm-in agreement 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. As at September 30, 2012, the remaining commitment is approximately US$4.5 million.

On August 31, 2011, the Company entered into a two-year sublease agreement for office space in Calgary commencing on November 1, 2011 and expiring on October 31, 2013. The total amount committed under this sublease is approximately $425,000 which includes an estimate for operating costs over the term of the lease. The remainder of this commitment is approximately $230,000 as at September 30, 2012.

On October 26, 2012, Valeura entered into a further two-year sublease agreement for its current office space in Calgary commencing on November 1, 2013 and expiring on October 31, 2015. The total amount committed under this sublease is approximately $1 million, including an estimate for operating costs over the term of the lease.

8. Subsequent Events

On October 10, 2012, the Company closed its previously announced public offering of common shares. A total of 11.5 million common shares of Valeura were issued at a price of $1.30 per common share for gross proceeds of $14.95 million (estimated net proceeds after fees and expenses of $13.8 million).