KULCZYK
OIL VENTURES

ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2010

MARCH 29, 2011

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GLOSSARY OF TERMS

All capitalized terms used in this Annual Information Form ("AIF") but not otherwise defined herein shall have the meanings set forth below. The information set out in the AIF is stated as at December 31, 2010 unless otherwise specifically stated.

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended;

"**Arrangement**" means the court-approved plan of arrangement involving Loon, the securityholders of Loon and Loon Corp effected pursuant to Section 193 of the ABCA, which was completed on December 10, 2008;

"**Board of Directors**" means the board of directors of the Company;

"**Brunei Assets**" means the right to explore for and produce oil and gas from Block L and Block M in Brunei as set forth in the Brunei Block L PSA and the Brunei Block M PSA;

"**Brunei Block L PSA**" means the production sharing agreement for Brunei Block M, which is described in "*Principal Oil and Gas Assets - Brunei*";

"**Brunei Block M PSA**" means the production sharing agreement for Brunei Block M, which is described in "*Principal Oil and Gas Assets - Brunei*";

"**Common Shares**" means the common shares in the capital of the Company;

"**Company**" **or** "**KOV**" means Kulczyk Oil Ventures Inc.;

"**GPC**" means General Petroleum Corporation, successor to SPC;

"**KI**" means Kulczyk Investments S.A., a company existing under the laws of Luxembourg;

"**KI Debenture**" means the unsecured convertible debenture for a principal amount of up to US$20 million issued by the Company to KI, which matured on August 31, 2010;

"**KOV Borneo**" means KOV Borneo Limited, a company existing under the laws of England, which is a wholly-owned subsidiary of KOV Cyprus;

"**KOV Cyprus**" means Kulczyk Oil Ventures Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of the Company;

"**KUB-Gas**" means KUB-Gas LLC, a company existing under the laws of Ukraine, which is an indirect 70% owned subsidiary of the Company;

"**Kulczyk Oil Brunei**" means Kulczyk Oil Brunei Limited (formerly Loon Brunei Limited), a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of KOV Cyprus;

"**Loon**" means Loon Energy Inc., the Company's name prior to the completion of the Arrangement;

"**Loon Corp**" means Loon Energy Corporation. Loon Corp, which is listed on the TSX-V, was formed as a part of the Arrangement;

"**Loon Latakia**" means Loon Latakia Limited, a company existing under the laws of Cyprus, which is a wholly-owned subsidiary of KOV Cyprus;

"**Loon Ukraine**" means Loon Ukraine Holding Limited, a company existing under the laws of Cyprus, which is a 70% owned subsidiary of KOV Cyprus;

“**NI 51-101**” means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

“**PetroleumBRUNEI**” means Brunei National Petroleum Company Sendirian Berhad, a private limited company wholly-owned by the Government of Brunei;

“**RPS**” means RPS Energy, an engineering consulting company;

“**RPS Syria Block 9 Report**” means the report of RPS dated March 17, 2011 on their evaluation of the resource potential of Syria Block 9;

“**RPS Ukraine Report**” means the report of RPS dated February 9, 2011 on their evaluation of the reserves and the resource potential of KUB-Gas;

“**SHA**” means the shareholder’s agreement dated November 10, 2009 between KOV Cyprus, Gastek and Loon Ukraine governing their relationship as shareholders of Loon Ukraine;

“**SPC**” means Syrian Petroleum Company, a legal entity created by Legislative Decree Number 9 of 1974 by the Government of the Syrian Arab Republic and registered in Damascus, Syria;

“**Syria Assets**” means the right to explore for and produce oil and gas from Block 9 in Syria as set forth in the Syria Block 9 PSC;

“**Syria Block 9 PSC**” means the contract for the exploration, development and production of petroleum under which the Company has the right to explore for and produce oil or gas from Syria Block 9, which is described in “*Principal Oil and Gas Assets - Syria*”;

“**TIG**” means, collectively, TGEM Asia LP, Tiedemann Global Emerging Markets LP and Tiedemann Global Emerging Markets QP LP, each a limited partnership registered in the Cayman Islands;

“**TIG Convertible Debenture**” has the meaning ascribed thereto in “*Interest of Management and Others in Material Transactions – TIG Notes and TIG Convertible Debenture*”;

“**TIG Notes**” means convertible unsecured loan notes formerly issued by Triton and held by TIG;

“**Triton**” means Triton Hydrocarbons Pty Ltd., a private Australian company whose assets are owned by KOV Cyprus;

“**Triton Singapore**” means Triton Petroleum Pte Ltd., a company existing under the laws of Singapore, which is partly owned by KOV Cyprus;

“**TSX-V**” means the TSX Venture Exchange; and

“**Ukraine Assets**” means the 70% equity interest indirectly held by the Company in Loon Ukraine, which owns 100% of the shares of KUB-Gas and a 1,000 HP drilling rig manufactured in Canada in 2007.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	Mcf	thousand cubic feet
bbl/d	barrels per day	MMcf	million cubic feet
Mbbl	thousands of barrels	Bcf	billion cubic feet
boe/d	barrels of oil per day	Mcf/d	thousand cubic feet per day
Boe	barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated	MMcfd	million cubic feet per day
		GJ	gigajoule
Mboe	thousand boe	Tcf	trillion cubic feet
NGL	natural gas liquids	McfGE	thousand cubic feet equivalent
MMBtu	million British thermal units		
Stb	standard stock tank barrel		
Mstb	thousand standard stock tank barrels		

Production information is commonly reported in units of barrel of oil equivalent ("**boe**" or "**BOE**") or in units of natural gas equivalent ("**McfGE**"). **However, BOEs or McfGEs may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl, or an McfGE conversion ratio of 1 bbl:6 Mcf, is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.**

CONVERSIONS

To Convert From	To	Multiply By
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471
Kilograms	Pounds	2.205
Pounds	Kilograms	0.454
Mcf	Thousand cubic metres	0.028
Thousand cubic metres	Mcf	35.494
bbl	Cubic metres	0.159
Cubic metres	Bbl	6.29

CURRENCY PRESENTATION AND EXCHANGE RATE DATA

Unless otherwise indicated, references herein to "$", US$ or "dollars" are to United States dollars. References to "PLN" are to Polish Zlotys and "UAH" are to Ukraine Hryvnias.

Canadian Dollar (CDN$) to US $1.00

2008:			
	Year-end		0.9984
	Average		1.0660
	Annual High		1.3008
	Annual Low		0.9711
2009:			
	Year-end		0.9955
	Average		1.1420
	Annual High		1.3066
	Annual Low		1.0251
2010:		Month-end	Average
	January	0.9390	1.0077
	February	0.9500	1.0128
	March	0.9846	1.0179
	April	0.9855	1.0330
	May	0.9558	1.0413
	June	0.9429	1.0426
	July	0.9718	1.0379
	August	0.9399	1.0399
	September	0.9711	1.0050
	October	0.9815	1.0230
	November	0.9778	1.0568
	December	1.0054	1.0429
	Annual High	1.0054	1.0429
	Annual Low	0.9390	1.0077
	Annual Average	-	1.0299
2011:			
	January	0.9800	0.9938
	February	1.0268	0.9875

Data source:

Bank of Canada (http: bank-banque-canada.ca/en/rates).

On March 25, 2011, the CDN$/US$ noon rate announced by the Bank of Canada was US$1.00 equals CDN$0.9778.

		Polish Zloty (PLN) to US $1.00		Ukraine Hryvnia (UAH) to US $1.00	
		Month-end	Average	Month-end	Average
2010:					
	January	2.9803	2.8518	8.0012	7.9970
	February	2.9251	2.9385	7.9900	8.0003
	March	2.8720	2.8672	7.9250	7.9671
	April	2.9305	2.8799	7.9259	7.9257
	May	3.3132	3.2137	7.9251	7.9257
	June	3.3946	3.3571	7.9070	7.9157
	July	3.0731	3.1950	7.8932	7.9016
	August	3.1583	3.0894	7.8861	7.8903
	September	2.9250	3.0318	7.9135	7.9103
	October	2.8873	2.8482	7.9116	7.9105

	November	3.1308	2.8913	7.9380	7.9278
	December	2.9641	3.0197	7.9617	7.9557
	Annual High	3.3946	3.3571	8.0012	8.0003
	Annual Low	2.8720	2.8518	7.8861	7.8903
	Annual Average	-	3.0157	-	7.9356
2011:					
	January	2.8445	2.9148	7.9400	7.9497
	February	2.8765	2.8766	7.9307	7.9408

Data sources:

(a) Polish Zloty to US$: National Bank of Poland (http://www.nbp.pl).

(b) Ukraine Hryvnia to US$: National Bank of Ukraine (http://bank.gov.ua).

On March 25, 2011, the PLN/US$ exchange rate announced by the National Bank of Poland was US$1.00 equals PLN 2.8425.

On March 25, 2011, the UAH/US$ exchange rate announced by the National Bank of Ukraine was US$1.00 equals UAH 7.9710.

FORWARD-LOOKING INFORMATION

Certain statements contained in this AIF constitute forward-looking statements under applicable securities laws. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “predict”, “project”, “should”, “target”, “will”, or similar words suggesting future outcomes or language suggesting an outlook. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Management believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this AIF should not be unduly relied upon.

Forward-looking statements and information in this AIF include, but are not limited to, statements with respect to:

- drilling plans and timing of drilling;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- growth expectations within the Company;
- access to attractive investment opportunities and success in bidding for and winning new assets;
- timing of development of undeveloped reserves;
- the performance and characteristics of the Company’s oil and natural gas properties;
- the quantity of oil and natural gas reserves and resources;
- capital expenditure programs;
- supply and demand for oil and natural gas and commodity prices;
- the impact of governmental regulation on the Company relative to other oil and gas companies of similar size;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- expectations regarding the Company’s ability to raise capital and to continually add to reserves and resources through acquisitions, development and exploration;
- treatment under governmental regulatory regimes and tax laws; and
- realization of the anticipated benefits of acquisitions and dispositions.

Statements relating to “reserves” or “resources” are also deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, including that the reserves and resources described can be profitably produced in the future. See “*Statement of Reserves Data and Other Oil and Gas Information*”.

Developing forward-looking information involves reliance on a number of assumptions and consideration of certain risks and uncertainties, some of which are specific to the Company and others that apply to the oil and gas industry generally.

Although the Company believes that the assumptions and expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such assumptions and expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements and information. The factors or assumptions on which the forward-looking information is based include:

- the Company's projected capital investment levels;
- the flexibility of capital spending plans and the associated source(s) of funding;
- the expertise of management of the Company in contributing to increased production volumes and the success and revenues of the Company; and
- estimates of quantities of oil and natural gas from properties and other sources not currently classified as proved reserves.

Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this AIF include, but are not limited to:

- competition within the oil and natural gas industry for, among other things, capital, acquisitions of reserves, undeveloped land and skilled personnel;
- environmental risks and hazards associated with the oil and gas industry;
- adverse weather conditions in areas where the Company conducts operations;
- variations in foreign exchange rates and interest rates;
- the available of certain equipment and services and the Company's access to such equipment and services;
- risks associated with economies in the countries in which the Company operates;
- the early stage of the Company's operations;
- risks associated with the exploration, development and production of the Company's interests, including geological, technical, drilling and processing problems and other difficulties in producing reserves and failure to realize anticipated benefits of exploration activities;
- the effects of regulation (including environmental regulation) in the countries in which the Company operates;
- risks associated with the Company's title to certain oil and gas properties; the effect of U.S. government sanctions on the Company's interests in Syria;
- risk of the effect of relinquishment obligations under the term of the Company's production sharing arrangements and governmental regulatory regime;
- risks associated with the Company's reliance on its third party operators;

- uncertainties regarding the interpretation and application of foreign laws and regulations; and
- other factors described further in "*Risk Factors*".

Readers are cautioned that the foregoing lists are not exhaustive. The factors and risks set out in these lists are difficult to predict and the assumptions used in the development of the forward-looking information contained herein, although considered reasonably accurate at the time of development, may prove to be incorrect or incomplete. Furthermore, the forward–looking statements contained in this AIF are made as of the date hereof, and the Company undertakes no obligation, except as required by applicable securities laws, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

CORPORATE STRUCTURE

Name, Address and Incorporation

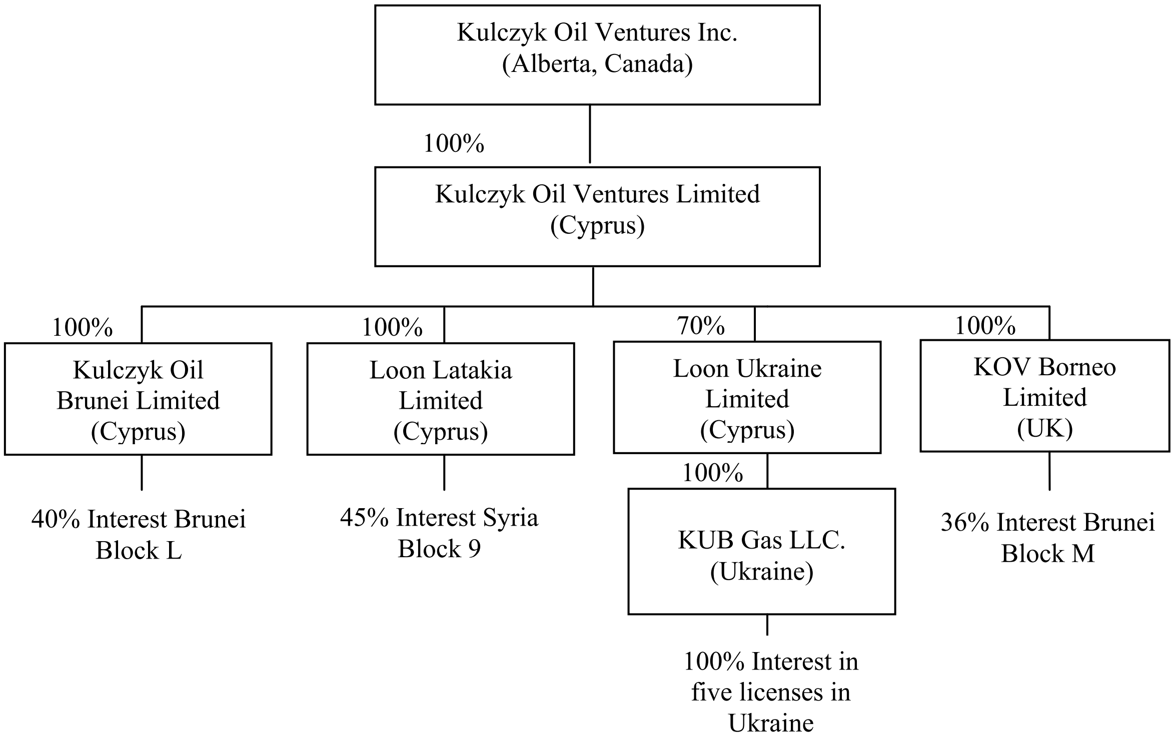
The Company was incorporated pursuant to the provisions of the ABCA on March 16, 1987 as Titan Diversified Holdings Ltd., a public investment company listed on the Alberta Stock Exchange, a predecessor to the TSX-V. On August 18, 1997, the name of the Company was changed to Loon Energy Inc. In December 2008, Loon was reorganized pursuant to the Arrangement involving Loon, the securityholders of Loon and Loon Corp, and the name of the Company was changed to Kulczyk Oil Ventures Inc. On September 7, 2010, the Articles of the Company were amended to permit shareholder meetings of the Company to be held outside of the province of Alberta, and the By-laws of the Company were amended to, among other things, provide shareholders of the Company with protection against dilution by requiring majority shareholder approval for certain types of private placements by the Company and effect updates to reflect the introduction of the position of Vice Chairman of the Board of Directors following the investment by KI in the Company.

The Company's head office and registered office are located at suite 1170, 700-4th Avenue S.W. Calgary, Alberta T2P 3J4.

Intercorporate Relationships

KOV has one direct wholly-owned subsidiary, KOV Cyprus, three material indirect wholly-owned subsidiaries, Kulczyk Oil Brunei, Loon Latakia and KOV Borneo, and one indirect 70% owned subsidiary, Loon Ukraine which owns 100% of the shares of KUB-Gas. KOV Cyprus also holds a 35% non-controlling interest in Mauritania International Petroleum Inc. and a 30.27% non-controlling interest in Triton Singapore. KOV holds a 6.4% non-controlling interest in Jura Energy Corporation ("**Jura**"). Jura is a public company listed on the Toronto Stock Exchange.

The corporate ownership structure and the inter-corporate relationships of the Company and its principal operating subsidiaries, including the percentage of votes attaching to voting securities owned, or controlled or directed, directly or indirectly, by KOV, are shown below. The jurisdictions of incorporation, formation or organization are shown in brackets under the company name.



The above diagram includes the Company's subsidiaries which have total assets that exceed, 10% of the Company's total consolidated assets, or sales and revenues which exceed 10% of the Company's total consolidated sales and revenues. The assets and revenues of the Company's unnamed subsidiaries did not exceed 20% of the Company's total consolidated assets or total consolidated sales and revenues at and for the year ended December 31, 2010.

GENERAL DEVELOPMENT OF THE BUSINESS

History of the Company

The Company was incorporated pursuant to the provisions of the ABCA on March 16, 1987 as Titan Diversified Holdings Ltd., a public investment company listed on the Alberta Stock Exchange, a predecessor to the TSX-V. On August 18, 1997, the name of the Company was changed to Loon Energy Inc. and the Company invested in Canadian oil and gas assets. In 2001, the Company changed its focus to international oil and gas assets. In 2006, it entered into the Brunei Block L PSA and the Syria Block 9 PSC. In May 2007, KI became the largest shareholder of the Company when it purchased an approximate 17% shareholding in the Company from a third party. In December 2008, following the completion of the Arrangement, the Common Shares of the Company were de-listed from trading on the TSX-V at the request of the Company, the name of the Company was changed to Kulczyk Oil Ventures Inc. and the Company proceeded to implement its strategic plan to enhance overall value through a series of corporate transactions. On October 23, 2009, the Company acquired all of the shares of Triton which expanded the interests of the Company in Brunei to include a 36% interest in the Brunei Block M PSA. In early November 2009, the Company entered into a series of agreements under which it ultimately acquired the Ukraine Assets in June 2010. On May 25, 2010, the Company closed a financing, raising gross proceeds of US$93 million, and concurrently listed the Common Shares for trading on the Warsaw Stock Exchange ("**WSE**") under the symbol "KOV".

Plan of Arrangement

Early in the fourth quarter of 2008, as the global economic crisis was unfolding, the Board of Directors of the Company, then known as Loon, adopted a strategic plan to enhance overall shareholder value through a series of corporate transactions with the ultimate goal of listing the Common Shares on the WSE. On December 10, 2008, in order to give effect to that strategy, the Company completed a significant reorganization of its business pursuant to the Arrangement. The Arrangement resulted in all of Loon's assets and liabilities being divided between the Company, as the legal entity continuing out of the Arrangement, and Loon Corp, a new ABCA corporation incorporated for that purpose. The existing shareholders of Loon retained their respective proportionate ownership interests in the common shares of each of the Company and Loon Corp with each Loon shareholder receiving a number of Loon Corp common shares equivalent to the number of Loon common shares they owned immediately prior to the implementation of the Arrangement. In addition, each Loon shareholder was granted a put right (the "**Put Right**") available only at the time of the closing of the Arrangement which, upon exercise, enabled them to require Loon (the Company) to repurchase their common shares at a price of US$0.199 (CDN$0.25) per share. A maximum of US$9,556,423 (CDN$12 million) was available to Loon shareholders who decided to exercise the Put Right.

To provide the Company with the funds necessary to finance the Put Right and with additional capital in the event that all of the funds were not used for that purpose, KI committed to subscribe for 48,000,000 common shares of Loon (the Company) at a price of US$0.199 (CDN$0.25) per share which resulted in gross and net proceeds to Loon (the Company) of US$9,556,423 (CDN$12 million). Upon the closing of its subscription for an additional 48,000,000 Common Shares of the Company coincident with the completion of the Arrangement, KI increased its total shareholdings in the Company to approximately 59% of the issued and outstanding Loon common shares as at December 10, 2008 before giving effect to the cancellation of Common Shares returned to the Company by other Loon shareholders on the exercise of the Put Right. After giving effect to the cancellation of 18,565,759 Common Shares on the exercise of the Put Right, the percentage ownership of KI in the Common Shares further increased to approximately 68% of the then issued and outstanding Common Shares in the capital of the Company.

Pursuant to the Arrangement, Loon transferred to Loon Corp all of its oil and gas assets in Colombia and Peru, which consisted of a minor gas producing asset in Colombia and its interest in an exploration license in Peru and made a payment to Loon Corp of US$3 million in cash. The Company retained the Brunei Assets and the Syria Assets, a minor interest in Slovenia and a minority equity investment in Jura. As part of the implementation of the Arrangement, Loon changed its name to Kulczyk Oil Ventures Inc. and Dr. Jan Kulczyk and Mr. Dariusz Mioduski of KI, joined the Board of Directors, with Dr. Kulczyk being appointed Chairman of the Board of Directors. Mr. Manoj Madnani of KI continued as a director of the Company and Mr. Stefan Krieglstein of KI retired from the Board of Directors as of the closing of the Arrangement. Following the closing of the Arrangement, the Common Shares were de-listed from trading on the TSX-V at the request of the Company.

Additional Funding from KI

On September 9, 2009, KOV finalized arrangements with KI, the majority shareholder of the Company, for KI to provide KOV with up to US$8 million in funding enabling the Company to meet its financial commitments prior to the closing of an initial public offering and concurrent equity raise in Poland and the listing of the Common Shares on the WSE. In connection with such arrangements, KOV issued the KI Debenture to KI. Interest was payable under the KI Debenture at a rate of 7.16% per annum, compounded semi-annually. Effective November 9, 2009, the KI Debenture was amended to increase the amount of the funding available to US$11 million from US$8 million with all other terms and conditions remaining unchanged. Effective January 21, 2010, the KI Debenture was amended again to increase the amount of the funding available to US$20 million from US$11 million with all other terms and conditions remaining unchanged.

On March 25, 2010, the Company had drawn US$20 million under the terms of the KI Debenture. On May 25, 2010, the first day the Company's shares traded on the WSE, the parties to the KI Debenture agreed to the conversion of approximately US$14.4 million of principal outstanding under the KI Debenture to 25 million Common Shares. On July 8, 2010, the remaining principal outstanding under the KI Debenture, being approximately US$4.6 million, was converted to 10,086,842 Common Shares and the interest accrued to the conversion date was paid in cash. After completion of all of these steps, KI held, and continues to hold as of the date of this AIF, 200,358,212 Common Shares representing 49.8% of the total number of Common Shares outstanding as of the date immediately prior to the date of this AIF.

Initial Public Offering in Poland

In May 2010, the Company completed an initial public offering of 166,394,000 Common Shares in Poland and listed all of its Common Shares for trading on the WSE. The Common Shares were issued at a price of PLN 1.89 per Common Share (US$0.56 per Common Share) resulting in gross proceeds of PLN 314,484,660 (approximately US$93 million). The Common Shares began trading on the WSE on May 25, 2010.

SIGNIFICANT ACQUISITIONS

Triton Hydrocarbons Pty Ltd.

On October 23, 2009, the Company, through its subsidiary KOV Cyprus, completed the acquisition of all of the issued and outstanding shares of Triton (the "**Triton Acquisition**") in exchange for an aggregate of 75,065,944 newly issued Common Shares which, at the time of closing, represented 3.44% of the total issued and outstanding Common Shares on a fully-diluted basis pursuant to a pre-acquisition agreement dated August 11, 2009 between the Company and Triton (the "**Triton Pre-Acquisition Agreement**"). As part of the completion of the Triton Acquisition, the Company issued a secured subordinated convertible debenture in the amount of US$10,010,000 to TIG, to replace a convertible note that they had held as a creditor of Triton. For further information, please see "*Material Contracts – TIG Agreement and TIG Debenture"*.

The principal asset of Triton was a 36% working interest in the Brunei Block M PSA. For further information, please see "*Principal Oil and Gas Assets – Brunei*". Triton also owned a 35% interest in a private company with exploration assets in Mauritania.

On closing, the Triton shareholders also received an aggregate of 13,670,723 Series A Preferred Shares of the Company, which upon their redemption and cancellation by the Company were exchanged for 50% of the shares of Triton Singapore, with the Company retaining the other 50% (since reduced to 30.27%) of the shares of Triton Singapore, and the Company agreed to transfer to Triton Singapore a 20% interest in Syria Block 9. For further information, please see "*Principal Oil and Gas Assets – Syria – Material Agreements – Triton Block 9 Agreement*". Triton Singapore is a private company registered in Singapore and managed by the former executive officers of Triton.

On December 21, 2010, Agri Energy Ltd. ("**Agri**"), a public company listed on the Australian Securities Exchange, announced that it had entered into agreements giving it the right to acquire Triton Singapore in exchange for shares of Agri.

A Business Acquisition Report relating to the Company's acquisition of Triton is available under the Company's profile on SEDAR at www.sedar.com.

KUB-Gas

On November 10, 2009, the Company, through its subsidiaries KOV Cyprus and Loon Ukraine, entered into two sale and purchase agreements with Gastek LLC ("**Gastek**"), a private California company, under which KOV acquired the Ukraine Assets for a total cost of US$45 million. A deposit of US$1.35 million, representing 3% of the total purchase price, was paid to Gastek on November 18, 2009 upon the signing of the purchase and sale agreements and a further deposit of US$1.40 million was paid on April 28, 2010. The balance of the purchase price, less certain adjustments, was paid by the Company to Gastek in June 2010 shortly after the completion of its initial public offering in Poland.

Through a series of steps, KOV now holds 70% of the ordinary issued equity of Loon Ukraine, a private company registered in Cyprus, with Gastek, the vendor of the KUB-Gas assets, owning the remaining 30% of Loon Ukraine's shares. Loon Ukraine owns 100% of the charter capital of KUB-Gas, a private Ukraine company with gas producing assets and certain service assets, and owns a 1,000 horsepower drilling rig built in Canada in 2007 which is operated by KUB-Gas. KUB-Gas is one of the largest private gas producers in Ukraine and it sells gas domestically to both gas traders and industrial consumers. The gas producing assets of KUB-Gas, at the time of acquisition, represented 100% interests in four licenses near the city of Lugansk in the northeast part of Ukraine. In January 2011, KUB-Gas acquired a 100% interest in an additional license in the same area.

For further information on KUB-Gas and the Ukraine Assets, please see "*Principal Oil and Gas Assets – Ukraine*".

The affairs of Loon Ukraine are governed by the SHA. For further information, please see *"Principal Oil and Gas Assets – Ukraine – Material Contracts"*.

The reserves and certain resources of KUB-Gas have been evaluated in the RPS Ukraine Report. For further information please see *"Principal Oil and Gas Assets – Ukraine – Reserves and Resources"*.

A Business Acquisition Report relating to the Company's acquisition of KUB-Gas is available under the Company's profile on SEDAR at www.sedar.com.

2011 Activity

For 2011, the Company will focus on enhancing production and revenues from its existing properties in Ukraine, and expanding its portfolio through the evaluation of new opportunities for investment, none of which have been specifically identified as of the date of this AIF.

DESCRIPTION OF THE BUSINESS

Overview

The Company is an international oil and gas exploration company led by a management team with a strong international and operational background with extensive global contacts in the oil and gas business. The Company has a diversified asset base with exposure to development and appraisal prospects and significant exploration upside. Its principal assets include an interest in a drilling rig and in a gas production company which owns five natural gas fields in the Ukraine, and rights to explore for and, upon the satisfaction of certain conditions, produce oil and natural gas from a large onshore exploration block in Syria and from the majority of onshore Brunei.

Oil and Natural Gas Exploration and Production

The Company is focused on enhancing gas production and production revenues in Ukraine, exploring for oil and natural gas in Syria and Brunei, and expanding its portfolio through the evaluation of new opportunities for investment.

In Ukraine, the management of the Company anticipates that the Ukraine Assets will provide ongoing revenues from gas production and the Company's expertise will contribute to increasing the production volumes as a result of both surface and sub-surface optimisation and discovery of new resources.

Exploration work in Syria is conducted by the Company's subsidiary, Loon Latakia. In Brunei, exploration work is conducted by the Company's subsidiaries through joint ventures with other companies active in the same business as the Company.

In the event that oil or natural gas is discovered by one or more of the wells drilled by the Company and its joint venture partners and they determine that the discovered resources are capable of commercial exploitation, they will submit a development plan as required under the terms of the Syria Block 9 PSC, the Brunei Block L PSA, or the Brunei Block M PSA. After agreement with the SPC, in the case of Syria, and PetroleumBRUNEI, in the case of Brunei, a program to develop and produce the discovered commodity (oil or natural gas) will be undertaken. The Company has not made any forecast of future production volumes or revenues that might accrue to the Company from such development.

Revenues By Category

	2010		**2009**	
	Total for Company	Total: Ukraine – to Customers outside of the Company's consolidated group	Total for Company	Total: Ukraine – to Customers outside of the Company's consolidated group
Natural Gas Sales	$8,448,191	100%	$ -	-
Natural Gas Liquid Sales	$497,321	100%	$ -	-
Total Revenue	$8,945,512	100%	$ -	-

Key Personnel

The management of the Company is led by its President and Chief Executive Officer, Timothy Elliott and its Executive Vice President, Jock Graham, both of whom are based in Dubai, United Arab Emirates, and the Vice Chairman of its board of directors, Norman Holton, who is based in Calgary, Alberta, Canada. The team has extensive experience in managing and growing publicly listed oil and gas companies, has demonstrated transaction structuring capability that enhances shareholder value and has extensive technical and international oil and gas experience. The senior management and key technical personnel have in-depth expertise on the mechanics of evaluation potential opportunities with respect to both commercial and technical risks and have a record of success in the international oil and gas business in the Middle East, Asia, Europe and Americas. The team has overall expertise in all professional disciplines impacting international oil and gas projects.

Specialized Skill and Knowledge

- The Company's management team, collectively, has over 100 years of oil and gas experience with the extensive international expertise needed to successfully develop and manage its diversified international portfolio of oil and gas assets.

- Proven track record of delivering value in the upstream oil and gas business including sourcing and executing, discovery and development of oil and gas production and arranging appropriate financing to fund the necessary capital commitments.

- Strong deal making capability leads to seamless transaction execution from initial scoping of deal through to due diligence and finalization of contracts.

- International technical team with extensive knowledge of most hydrocarbon basins worldwide.

- High-grading of opportunities ensures efficient use of personnel and financial and technical resources.

The management of KOV believes that its international and management experience, its deal making capability and the quality of its technical team will continue to be key factors in achieving its strategic objectives.

Competitive Conditions

Companies operating in the petroleum industry must manage risks which are beyond the direct control of company personnel. Among these risks are those associated with exploration, transportation infrastructure (including access), environmental damage, fluctuating commodity prices, foreign exchange rates and interest rates, changes in law and its application and adjudication, and changes in political regimes.

The Company will, from time to time, compete for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies, numerous independent oil and natural gas companies and trusts, and individual producers and operators.

The Company believes that the following factors maximize the success and revenues of the Company in the future:

Diversified Asset Base

The management of KOV believes that its diversified asset base, balanced between high risk exploration and lower risk appraisal opportunities, will minimize the risks of oil and gas drilling and maximize the Company's revenues.

- KOV has a diversified portfolio of exploration and development assets.

- Long-term success is not dependent on any particular country, development concept or prospect type.

- In-house expertise can be utilised to optimise and accelerate production and development plans.

- Experience in the Americas, Europe, the Middle East and Southeast Asia can be utilised to effectively exploit existing assets and develop new opportunities for growth.

High Quality Deal Flow

- Senior management based in Dubai, Calgary and Warsaw are able to access new exploration and production opportunities from these key energy hubs by utilising their extensive personal contacts in the industry.

- The extensive business networks of Dr. Kulczyk and KI in emerging markets and in Central and Eastern Europe are another likely source of new investment opportunities for the Company.

The management of KOV believes that the deal flow available to its management and its directors through Canada, Dubai and in Central and Eastern Europe will lead to continued access to attractive investment opportunities.

Partnering with Indigenous Companies

- KOV has a history of aligning its interests with local companies.

- Local market knowledge increases the potential for successful deal making and the local companies benefit from the technical expertise and business experience of the KOV team.

The management of KOV believes that partnering with local companies, as it has done in Ukraine, Syria and Brunei, will ensure continued success in bidding for and winning new assets.

Flexible Financing

- In financing, KOV will analyse the complete spectrum from farmouts to debt and capital markets in order to fund its capital commitment obligations in an optimal way considering the risks of the business and the value to its shareholders.

Effective Partner Relationships

- KOV believes that both local and industry partners are often an essential part of the sourcing and securing of deals and that retaining equity in the assets for local partners adds further comfort and mutual alignment in business development.

Leverage Expertise

- KOV will continue to utilise the technical expertise of its experienced team in implementing production optimisation and acceleration based on the best available and cost effective technology.

Portfolio Diversification

- KOV will continue to evaluate both onshore and offshore oil and gas opportunities and focus on maintaining a well-balanced portfolio of exploration and development projects.

The management of KOV believes that the foregoing competitive strengths will enable the Company to take advantage of future opportunities and achieve its strategic objectives. The information presented above with respect to the competitive strengths of KOV are made by the management of KOV and there are no third party reports or other sources that constitute the basis for statements made by the Company regarding its competitive position.

Cycles

Prices for crude oil and natural gas are subject to periods of volatility. Prolonged increases or decreases in the price of oil and gas could significantly impact the Company. There is a strong relationship between energy commodity prices and access to both equipment and personnel. High commodity prices also affect the cost structure of services which may impact the Company's ability to accomplish drilling, completion and equipping goals. In addition, weather patterns are unpredictable and can cause delays in implementing and completing field projects.

The oil and gas business is cyclical by nature, due to the volatility of oil and gas commodity pricing as described above. Additionally, seasonal interruptions in drilling and construction operations can occur but are expected and accounted for in the budgeting and forecasting process. In Ukraine, access to drill sites and the ability to conduct seismic operations can be negatively impacted by cold weather and snow during the winter months and by heavy rains and muddy conditions in March and April. In Syria, sandstorms can cause disruption in field operations as can cold weather in the winter months. In Brunei, wet weather makes certain parts of the Company's lands inaccessible for drilling or seismic operations during certain parts of the year.

Employees

As at December 31, 2010, the Company had 22 direct employees, with an additional 309 staff employed directly by KUB-Gas in Ukraine. KOV operates indirectly through its 70% indirect ownership in KUB-Gas in Ukraine. In Syria, it operates directly as operator of its assets. KOV is not the operator for its assets in Brunei.

PRINCIPAL OIL AND GAS ASSETS

This section provides more detailed information with respect to the material oil and gas properties of the Company and the countries in which the properties are located.

In this section of the AIF, the Company also provides certain historical information concerning resources, estimates of the volume of resources, production estimates, historical production amounts and other information in respect of the areas surrounding the areas covered by the Ukrainian Licences (as defined below), Syria Block 9 and Brunei Block L and Block M which is "analogous information" as defined by applicable securities laws. This analogous information is derived from publicly available information sources which the Company believes are predominantly independent in nature. Some of this data may not have been prepared by qualified reserves evaluators or auditors and the preparation of any estimates may not be in strict accordance with the Canadian Oil & Gas Evaluation Handbook. Regardless, estimates by engineering and geo-technical practitioners may vary and the differences may be significant. The Company believes that the provision of this analogous information is relevant to the Company's activities, given its ownership interests and operations (either ongoing or planned) in the areas in question, however, readers are cautioned that there is no certainty that any of the Company's activities on the areas covered by the Ukrainian Licences, Syria Block 9 and Brunei Block L and Block M will be successful to the extent in which operations on the areas in which the analogous information is derived from were successful, or at all.

Ukraine

The Company owns an effective 70% ownership interest in KUB-Gas and in a 1,000 horse power drilling rig built in Canada in 2007. KUB-Gas, a private Ukrainian company which owns gas production assets and certain well servicing assets, is one of the largest private gas producers in Ukraine and sells gas domestically to both gas traders and industrial consumers. The assets of KUB-Gas consist of 100% interests in five licenses near to the city of Lugansk in the northeast part of Ukraine. Natural gas is currently produced from four of the licenses. Since the closing of the acquisition of KUB-Gas by the Company in June 2010, the O-8 gas development well and the M-19 new gas discovery well, neither of which is yet on production, have been drilled. KUB-Gas' average production during the month of February 2011 was 6.04 MMcf/d of natural gas (4.2 MMcf/d net to the 70% effective interest of KOV in KUB-Gas) and 52.6 bpd of condensate (36.8 bpd net to the 70% effective interest of KOV).

Overview

Ukraine is situated in eastern Europe, north of the Black Sea and the Sea of Azov and bordered by Poland, Slovakia and Hungary to the west, Romania and Moldova to the south and southwest, Belarus and Russia to the north and Russia to the east. Principal natural resources are iron ore, coal, manganese, natural gas, oil, salt, sulphur, graphite, titanium, magnesium, kaolin, mercury and timber. With 54% of its area being arable land, an important component of the economy of Ukraine is agriculture. Ukraine achieved independence from Soviet rule in 1991 with the dissolution of the USSR.

According to The World Fact Book (https://www.cia.gov/library/publications/the-world-factbook), estimated oil production in 2009 was 99,930 barrels per day, ranking Ukraine 51st in world in oil production. The oil consumption estimate of 348,000 bpd for 2009 indicates that Ukraine must import a significant portion of its oil requirements. Natural gas production in 2009 was estimated at 21.2 billion cubic metres while consumption during the same year is estimated to have been 52 billion cubic metres. With a population of about 45 million, GDP per capita was estimated at US$6,700 in 2010.

Oil production began in Ukraine in the 1880s but the hydrocarbon basins of Ukraine remain only partially explored due to Ukraine's historical reliance on imports and the high costs associated with drilling due to the depth at which most reserves have been found. Investment into geological exploration and prospecting since independence has been limited, largely due to political instability and an evolving legal system. On February 28, 2006, the Ukrainian Fuel & Energy Minister presented Ukraine's energy strategy at the headquarters of the European Union in Brussels. Two of the main objectives of the strategy are to: (a) meet internal demands for energy; and (b) enhance the level of energy security. In the Ukraine Energy Strategy Report, the Ukrainian government notes that it expects to increase exploration activity by more than 100% by 2030 which would likely require a significant amount of foreign investment in the Ukrainian energy sector. The Ukrainian government has established a policy of encouraging domestic production to satisfy the country's internal demand and improve the country's security of supply and consequently reduce reliance on foreign imports, particularly from Russia.

The Ukrainian oil and gas industry is dominated by state-owned companies. Private and foreign investors are increasingly seeking opportunities in the country and are being actively encouraged to do so by the Ukrainian government as a result of its energy strategy aimed at substantially increasing domestic production.

Naftogas is the largest of the Ukrainian state-owned companies and it dominates exploration and production, as well as main oil and gas pipelines, gas processing, the import and transit of gas, and gas distribution in Ukraine. Naftogas has entered into agreements with many foreign companies to enable an acceleration of hydrocarbon development in Ukraine. Among the foreign companies active in Ukraine are JKX Oil & Gas plc, Regal Petroleum plc and Cadogan Petroleum plc. A number of private Ukrainian oil and gas companies, including KUB-Gas, are active in the country.

In Ukraine, prices for domestic industrial gas customers are set by the Cabinet of Ministers of Ukraine on an "import parity" basis. As Ukraine relies to a significant extent on supplies of energy resources from Russia, the domestic industrial gas price in Ukraine exhibits a strong correlation with the Russian gas import price. This import price, and consequently the prices which may be charged by producers in Ukraine to their industrial customers, is determined based on annual negotiations between the governments of Ukraine and Russia.

Ukrainian gas pricing regulation differentiates between gas prices which may be charged to residential customers and prices which may be charged to industrial customers. Industrial customer gas prices in Ukraine are based on the price set by the Ukrainian government for its gas sales to industrial users. All of the natural gas production of KUB-Gas is sold to industrial users. The average realized price from production revenues from the KUB-Gas assets for the period from acquisition (June 11, 2010) to December 31, 2010 was US$7.60 per Mcf for natural gas and US$50.46 per barrel for condensate. Operations during that period generated a netback of US$3.34 million for the 70% interest of the Company. The average realized price during the month of February 2011 was US$8.03 per Mcf for natural gas and US$2.48 per barrel for condensate. Natural gas sales for a particular month are prepaid on the 10th day of that month, which is also the date that any adjustments to actual for the previous month are settled.

The long term success of the Company in Ukraine will be dependent on its ability to deal effectively with the legal and regulatory issues which affect the oil and gas business in Ukraine and to maximize production capability of its assets.

Special Permitting and Regulatory Regime in Ukraine

The discussion in this section is intended to provide a broad overview of the regulatory regime for all oil and gas exploration and production activities conducted within Ukraine. The specific gas producing assets owned by the Company through KUB-Gas are described in "*KUB-Gas Assets*", and in "*Licenses*".

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special permits and production special permits.

As a general rule, special permits for subsoil use are granted to eligible applicants on an auction basis. Special permits for exploration (including pilot production) of on-shore deposits are generally granted for a period of five years. A subsoil user is also provided with a one-time pre-emptive right to extend the term of an existing special permit on a non-auction basis, provided that the subsoil user adhered to its obligations with respect to that special permit. The term may be extended for no more than five years.

The issuance of a special permit for exploration (including pilot production) or commercial production of oil and gas is also conditional on: (i) the local authorities consenting to allocate the land plot(s) necessary for the subsoil activities, and (ii) the approval of the regional departments of the Ministry of Environmental Protection of Ukraine. The commencement of oil and gas commercial production is also subject to: (i) the State Committee of Ukraine on Industrial Safety, Labour Safety and Mining Control granting a mining allotment to the subsoil user; (ii) approval of the respective subsoil plot for commercial production by the Ministry of Fuel and Energy; and (iii) putting the subsoil plot into production.

Exploration and development special permits and the associated agreements contain minimum work obligations in respect of matters such as:

- undertaking seismic surveys;
- exploration drilling;
- well workovers;
- reserves estimation and other studies; and
- environmental impact assessments.

The Ministry of Environmental Protection of Ukraine can prescribe the special conditions for natural resources utilisation which are usually provided in the respective special permit and special permitting agreement.

If a special permit holder fails to meet its obligations under the special permit, special permitting agreement or the respective work programme, then it is considered to be in default and must either cure the default or risk losing the special permit. There is no set cure period, although the special permit holder has the option of appealing in court. Ukrainian legislation further provides for the suspension, annulment or re-registration of a special permit.

A subsoil user that wishes to commence commercial production at the subsoil plot must proceed as follows in order to transfer the subsoil plot from the exploration and pilot production stage to the commercial production stage and to become eligible for a production special permit. The subsoil user must: (i) complete the geological survey and the pilot production of the subsoil plot in compliance with the work programmes and the agreements on subsoil use (e.g., to prepare a draft estimation of the reserves based on the exploration results, to receive approval of the State Commission on Reserves of Mineral Resources, and to register the deposit's reserves); (ii) receive approval of the Ministry of Fuel and Energy for further commercial production of the deposit; and (iii) commence commercial production at the deposit.

A subsoil user may obtain a special permit for commercial production by participating in an auction procedure. It takes the Ministry of the Environment of Ukraine at least 3 months to hold an auction and grant a special permit to the winner. Such special permits for commercial production are usually issued for 20 year term.

Licenses

According to Ukrainian license law, a company must obtain a separate licence for each of the following types of the business activity: (a) geological exploration of mineral resources; and (b) production of mineral resources from the deposits of state priority that are included into the State Fund of Mineral Deposits.

Further, under applicable Ukrainian legislation, a special permit must be obtained for each particular type of subsoil use. In most cases special permits for subsoil use are granted to eligible legal entities and individuals that are compliant with the requirements of Ukrainian law on an auction basis. Each special permit will have an agreement on the terms and conditions of subsoil use annexed to it. This agreement is an integral part of the special permit. It is usually signed between the successful bidder of the auction and the Ukraine Ministry of Environmental Protection once the special permit has been issued. It contains the main terms and conditions pertaining to surveying, exploiting, drilling and producing mineral resources at a particular area of subsoil and may contain additional provisions regarding the social and environmental obligations of the subsoil user.

KUB-Gas holds permits for production of natural gas, condensate and oil at Makeevskoye, Olgovskoye and Krutogorovskoye and a permit for production of natural gas and helium (depths above 1,000 metres) at Vergunskoye.

In December 2010, KUB-Gas acquired an exploration licence in the North Makeevskoye area. For further information, please see "*KUB-Gas Assets*".

KUB-Gas Assets

The KUB-Gas assets at the time the acquisition of KUB-Gas closed consisted of 100% working interests in four license areas, Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye in the Lugansk region of eastern Ukraine. In December 2010, KUB-Gas acquired a 100% interest in a new license in the North Makeevskoye area. The five license areas are collectively called the "**Ukrainian Licenses**"). The Ukrainian Licenses are situated in the north-eastern part of Ukraine in the Dnieper-Donets Basin and Pripyat Graben. The area accounts for 90% of the natural gas production of Ukraine and is well served by transport infrastructure.

The Makeevskoye, Olgovskoye, Krutogorovskoye and Vergunskoye licence areas are producing natural gas as of the date of this AIF and production during the period ended December 31, 2010, net to the 70% interest of KOV, was 3.7 MMcf/d of natural gas and approximately 23 barrels of condensate per day. The Makeevskoye, Olgovskoye and Krutogorovskoye special permits are technically classed as exploration special permits under which production of up to 10% of the in-place volume is allowed for 'testing' purposes. These exploration special permits were re-issued incorporating new license areas on August 11, 2009 and have five-year terms, after which they can be extended for a further five years. KUB-Gas has priority options to convert the 'exploration' special permits to full 20 year production special permits at expiry. The Vergunskoye special permit, which has been on production since the 1970s, was converted to a 20 year production special permit in 2009.

The award of the North Makeevskoye exploration license to KUB-Gas for a five year term commencing December 29, 2010 increased their total holdings to five license areas and increased the total area under license to KUB-Gas by more than 110% to 36,315 hectares (89,736 acres).

The Company has been informed by KUB-Gas that the Ministry of Environmental Protection, as part of a general process affecting many licenses in Ukraine, has initiated separate proceedings to settle the validity of each of the three exploration special permits: Makeevskoye, Olgovskoye and Krutogorovskoye.

The claims of the Ministry of Environmental Protection, relating to Makeevskoye, Olgovskoye and Krutogorovskoye licences, have been considered by all three tiers of the Ukrainian administrative courts, including the Higher Administrative Court of Ukraine, and each of the claims was resolved in favour of KUB-Gas. Under Ukrainian Law decisions of the Higher Administrative Court of Ukraine may be subject to discretionary review by the Supreme Court of Ukraine. Such review is, however, possible in limited cases only.

General Geology of KUB-Gas Assets

The majority of Ukrainian hydrocarbon reserves occur in the Dneiper-Donets Basin, an elongated basin of northwest to southeast orientation that is comparable in size and geology to the North Sea central rift. The KUB-Gas fields are located in the northern flank of the southeast sector of the Dnieper-Donets Basin, where source rocks are more deeply buried and have generated gas and condensate. The reservoirs are mainly in Lower to Middle Carboniferous sandstones, but there are also pools in subordinate limestones.

The Dneiper-Donets Basin covers an area of approximately 31,000 km^2 and the more than 110 natural gas pools within it account for 90% of Ukrainian natural gas production. The basin is oil productive in the northwestern part and the southeast part, where the KUB-Gas assets are located, is dominated by natural gas production.

The overall depositional setting of these reservoirs is typical of the flank terraces of the Dnieper-Donets Basin, where sands were deposited in onshore fluvial to nearshore marine conditions. The Carboniferous section comprises a sequence of alternating sandstones, siltstones and shales, with occasional limestone members that may represent 'hard-grounds' or calcretes formed during periods of emergence. Log analysis indicates that the sand reservoirs are likely shallow marine offshore sand bars, fluvial channels and fluvial point-bars.

The Dnieper-Donets-Pripyat Graben is a narrow, elongated, northwest trending trough, located between two basement highs, namely the emergent Ukrainian Shield to the southwest and the buried Voronezh Arch to the northeast. This basin, measuring 1,500 kilometres by 200 kilometres, has a prospective area of more than 100,000 km^2. The graben can be sub-divided into a northern and a southern faulted terrace and a deep axial zone. The sedimentary fill is four to five kilometres thick in the Pripyat Graben and five kilometres thick in the northwest of the Dnieper-Donets Basin, increasing to 20 to 22 kilometres thick in the southeast.

The main phase of rift basin development occurred during the Middle to Late Devonian. The oldest Devonian deposits within the graben comprise lacustrine and fluvial red-beds and poorly sorted sandstones. This sequence passes up into silts, clays and thin-bedded carbonates. The Upper Devonian is dominated by conglomerates, sandstones and clays, with some carbonates. Black argillaceous limestones and calcareous shales are believed to be the main source rocks. Units of anhydrite and thin halite punctuate this section and there is a thick salt unit in the axial part of the Dnieper-Donets Basin near the top of the Devonian section. This salt, originally 200 to 1,000 metres thick, has undergone halokinesis during the Latest Devonian and Early Carboniferous and is to a greater or lesser extent responsible for structural development in the overlying sedimentary section. It also forms the regional seal to underlying reservoirs. The sub-salt sequence is deeply buried in the Dnieper-Donets Basin (3,500 to 5,000 metres on the terrace areas and 4,500 metres or more in the axis).

The post-salt uppermost Devonian section varies considerably in thickness (100 to 1,000 metres), mainly due to halokinesis. This section and the overlying Lower Carboniferous sediments are dominated by shallow marine clastics, including organic rich shales (an oil and gas source in the Dnieper-Donets Basin) and sandstone reservoirs, with porosities up to 20%. This unit is unconformably overlain by some 2,000 metres of regressive, shallow marine to deltaic sediments, including multi-stacked with thicknesses of 1 to 55 metres, with porosities of 7% to 20%. This post-salt section contains the majority of the oil reserves in the Dnieper-Donets Basin, which occur in salt-controlled and stratigraphic traps. The overlying Upper Carboniferous to Lower Permian section is also dominated by shallow marine to continental clastics, up to 2,500 metres thick in the axial zone of the Dnieper– Donets Basin, and is overlain by anhydrite and halite. This section contains gas fields in the axial zone, with some minor gas reservoirs in shallow Upper Permian, Triassic, and Jurassic sandstones.

Natural Gas and Condensate Potential

The Carboniferous aged reservoirs in the area of the Ukraine Assets are both clastic sandstones and carbonate limestones deposited in a marine to non-marine environment. The entire reservoir section is approximately 1,000 metres thick and is comprised of stacked reservoirs with individual thicknesses of between 1 and 18 metres which are subsequently encased in sealing shales. The resulting arrangement of multi-stacked reservoir and seals pairs results in natural gas and condensate being accumulated in numerous zones. The traps in the Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye fields are well defined and up to 35 zones (individual reservoir units) have been identified within the field areas. Each of these zones represents a potential gas pool, stacked one on top of another, for exploitation by KUB-Gas. Modern processes not yet used in the fields such as dual completions, co-mingling and hydraulic fracturing will be employed by KUB-Gas, with the technical input of the Company, to expedite and increase natural gas and condensate production.

Modern seismic technology and interpretation is another method being used by the Company to better define, explore and develop the Ukraine Assets. A 120 km^2 3D seismic survey is currently underway over the Olgovskoye and Makeevskoye licenses to better identify the Carboniferous reservoirs and structure and to define additional drilling locations. Seismic processing and interpretation undertaken by the Company led to the identification of the channel sands and the drilling of M-19 well. Previously disregarded, this classic "bright spot" anomaly (by Western Canada standards) was drilled as a new pool gas discovery in 2010. The technical team of the Company expects the new 3D survey to provide important information which will assist with the full development of the Makeevskoye and Olgovskoye license areas.

Reserves and Resources

RPS has prepared the RPS Ukraine Report which evaluated the natural gas and NGL reserves and contingent natural gas resources associated with the 70% effective interest of KOV in the Ukraine Licenses effective as at December 31, 2010. Information with respect to the reserves evaluated by the RPS Ukraine Report are summarized under "*Statement of Reserves Data and Other Oil and Gas Information*".

Information with respect to the contingent natural gas resources identified in the RPS Ukraine Report is summarized in the tables below. There is no certainty that it will be commercially viable to produce any portion of the resources.

CONTINGENT RESOURCES(1) (Unrisked 100% Interest)				
Field	**Resource Category**	**Low Estimate(2)**	**Best Estimate(3)**	**High Estimate(4)**
Olgovskoye	Gas (BCF)	9.465	37.073	89.161
Makeevskoye	Gas (BCF)	15,025	74.212	212.968

CONTINGENT RESOURCES(1) (Unrisked 70% KOV Effective Interest)				
Field	**Resource Category**	**Low Estimate(2)**	**Best Estimate(3)**	**High Estimate(4)**
Olgovskoye	Gas (BCF)	6.625	25.951	62.413
Makeevskoye	Gas (BCF)	10.518	51.948	149.078

Notes:

(1) "Contingent resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not yet considered mature enough for commercial development because of one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Contingent resources are further categorized into "Low estimate", "Best estimate" and "High estimate" according to the level of certainty associated with the estimates and may be sub-classified based on economic viability.

(2) "Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.

(3) "Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.

(4) "High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

To convert the foregoing contingent resources to reserves in the future, a firm development will be required and the nature of the plan will determine the expected gas recovery.

Future growth in reserves will come from development of the contingent resources defined at Olgovskoye and Makeevskoye and by further development of all of the fields. There is also potential for additional volumes of contingent resources associated with the Vergunskoye and Krutogorovskoye fields. Additionally, the RPS Ukraine Report does not take into account the application of new field operating practices commonly used elsewhere in the world to improve overall well productivity, such as dual completions and compression of gas, which the Company intends to apply to the fields. With regard to further update, the RPS Ukraine Report specifically acknowledges that there are additional gas reservoirs located in conventional but relatively tight reservoirs which should produce commercially after fracturing, but which will not be categorized as reserves until the Company demonstrates this procedure will work on the fields.

The work program for 2011 will principally target a continuation of the exploitation of the Olgovskoye and Makeevskoye fields. This will involve the drilling of new wells, the completion of new zones in existing wells, dual completions, stimulation treatments using modern and technically advanced methods commonly used elsewhere in the world and the implementation of a compression strategy.

Exploration / Development Activity and Future Plans

Since the acquisition of KUB-Gas in June 2010, two wells have been successfully drilled and cased under the operational supervision and with the technical input of the Company. A third well at O-7 was drilled prior to the closing of the KUB-Gas acquisition with technical input from KOV. The O-7 well was put on production in December 2010. The M-19 was tested during February 2011 at a stabilized flow rate of 5 MMcf/d through a 10 mm choke and is expected to commence regular production late in the second quarter at an initial rate of 3-3.5 MMcf/d. A fourth well, at O-9, was spud on March 5, 2011.

The work program for 2011 will principally target a continuation of the comprehensive and efficient exploitation of the Olgovskoye and Makeevskoye Fields. To aid in the exploitation of these fields, a 120 km² 3D seismic survey is currently being acquired and is scheduled for completion in second quarter 2011. Along with this new data, the technical teams will continue to drill new wells, complete new zones in existing wells and plan dual completions, stimulation treatments using modern and technically advanced methods commonly used elsewhere in the world and the effective implementation of a compression strategy.

The current drilling plans call for a new well to be drilled every six weeks during 2011. KUB-Gas' service rigs are expected to be working more or less fulltime on new and legacy wells.

A 2D seismic program has been instigated on the North Makeevskoye exploration license. These programs should be completed in second quarter 2011 with the first exploratory wells being drilled in these licences planned for early 2012.

Plant, Property and Equipment

KUB-Gas owns 100% of four gas processing facilities, each of which is located on the Ukrainian Licenses, with a total capacity of 98.1 MMcf/d of natural gas throughput per day and a network of flow lines totalling more than 40 kilometres, to enable the production and sale of natural gas. Additionally, KUB-Gas owns 100% of two service rigs, an inventory of spare parts, support vehicles, land and buildings.

The Company owns 70% of Loon Ukraine (which owns 100% of KUB-Gas) and therefore a net 70% indirect interest in the Ukrainian Licenses and in the drilling rig owned by Loon Ukraine.

Material Agreements

(a) Shareholders' Agreement

On November 10, 2009, KOV Cyprus, Gastek and Loon Ukraine entered into the SHA, governing KOV Cyprus and Gastek's relationship as shareholders in Loon Ukraine. The SHA came into effect upon completion of the KUB-Gas Acquisition.

Under the SHA, KOV Cyprus and Gastek agree that Loon Ukraine's business will be to conduct petroleum operations in Ukraine through its wholly owned subsidiary KUB-Gas under the existing Ukrainian Licences as well as applying for and exploring new petroleum opportunities in Ukraine. If either KOV Cyprus or Gastek would prefer not to undertake a particular new petroleum opportunity in Ukraine through Loon Ukraine, the other party may proceed independently.

The SHA contains the customary non-compete restrictions on the parties to the agreement.

Loon Ukraine's activities have been funded through a combination of cash flow generated through KUB-Gas's ongoing petroleum operations and from additional funds contributed by KOV Cyprus and Gastek pro-rata to their shareholdings in Loon Ukraine with such shareholder loans bearing interest (at LIBOR plus 2%) in accordance with the SHA.

The board of directors of Loon Ukraine consists of five members. So long as KOV Cyprus holds 60% or more of the issued equity in Loon Ukraine, it is entitled to appoint three of its nominees to the Loon Ukraine board (with one of KOV Cyprus's nominees being the Chairman). Otherwise, KOV Cyprus is entitled to appoint two directors and Gastek is entitled to appoint three directors to the Loon Ukraine board (with one of Gastek's nominees being the Chairman).

The SHA also establishes a Management Committee. Its function is to provide day-to-day operational recommendations to Loon Ukraine and the General Director and Technical Director of KUB-Gas in respect of petroleum operations conducted by KUB-Gas (including decisions relating to field abandonment). It is also responsible for developing and recommending annual work programs and budgets to the Loon Ukraine Board.

Resolution of any deadlock occurring at either the Board or Management Committee level is by way of consultation and agreement between the chief executives of Gastek and KOV Cyprus for resolution by them.

Each shareholder holds a first right of refusal over the transfer of shares by the other to a third party providing that the remaining shareholder matches the price offered by the third party. If a shareholder becomes insolvent, is subject to a change in control or fails to make a subscription or loan payment to Loon Ukraine in the manner required by the SHA, then the other shareholder has the right to buy the shares of the affected shareholder at either a predetermined price or a price determined by an expert.

The SHA also allows for a single Loon Ukraine shareholder to require Loon Ukraine to direct KUB-Gas to conduct particular petroleum operations on an exclusive basis (for example, if the other shareholder did not wish for Loon Ukraine to direct KUB-Gas to do so) ("**Exclusive Operations**"). In such circumstances the party proposing the Exclusive Operations:

(i) must fund, and indemnify Loon Ukraine against, all costs and liabilities associated with conducting the Exclusive Operations; and

(ii) receives a beneficial interest in 90% of all net proceeds derived from the Exclusive Operations until it has received an amount of proceeds from such Exclusive Operation which is equal to 200% of the amount spent by it under (i).

The SHA is governed by English law. Any disputes arising out of, or in connection with, the SHA are to be referred to the London Court of International Arbitration ("**LCIA**").

(b) Guarantee

On November 11, 2009, each of the three individual shareholders of Gastek (the "**Guarantors**"), KOV Cyprus and Loon Ukraine entered into a Guarantee Agreement whereby the Guarantors personally unconditionally and irrevocably jointly and severally guarantee the obligations of Gastek under the two sales and purchase agreements, the SHA, the Put Option Agreement and the Side Letter. The effect of the Guarantee is that all obligations of Gastek pursuant to the acquisition agreement and in respect of Gastek's ongoing obligation to fund its 30% share of ongoing exploration, development and operational activities are personally guaranteed by the Guarantors for a period of two years from November 11, 2009, the date the Guarantee Agreement was entered into. It is not possible to specify an exact amount of the Guarantee other than to say that it will vary depending upon the Gastek's 30% share of its funding obligations from time-to-time arising from ongoing exploration, development and operational activities of KUB-Gas.

KOV Cyprus and/or Loon Ukraine may, in their absolute discretion, issue a demand notice to any one or all of the Guarantors to perform its obligations under the Guarantee Agreement. The particulars noted in the demand notice prepared by KOV Cyprus or Loon Ukraine are conclusive and shall be unconditionally accepted by the Guarantors.

The Guarantee Agreement is governed by English law. Any disputes arising out of, or in connection with, the Guarantee Agreement are to be referred to the LCIA. The value of the Guarantee Agreement will vary depending on the value of the obligations that may be defaulted upon by Gastek that are being underwritten by the Guarantee Agreement. There is no maximum or minimum amount of the guarantee.

(c) Put Option Agreement

Under Ukrainian law, there are a number of technical requirements involved in securing the legal right to explore for or produce oil or natural gas, the absence of any one of which may constitute grounds for challenging the validity of such legal rights in court. The agreements to which KUB-Gas is a party may be subject to termination in the event that their validity, pursuant to one of these technical requirements, is challenged. To mitigate this risk, KOV Cyprus has entered into the Put Option Agreement with Gastek.

Under the Put Option Agreement, Gastek grants KOV Cyprus a put option whereby KOV Cyprus may require Gastek to purchase any or all of its shares in Loon Ukraine at a specified price. KOV Cyprus may exercise this right (once or more than one occasion) if any regulatory, administrative, litigious, arbitral or court proceeding, action, claim, order or measure is initiated or made by any party or person to expropriate or take measures tantamount to expropriation of KUB-Gas or key assets of KUB-Gas.

The purpose of the put option is to allow KOV Cyprus to recoup some or all of the value paid by it through the purchase price in the event that the value of KUB-Gas is reduced due to the occurrence of a trigger. The exercise price for the put option is the adjusted purchase price and deposit per share paid for each KUB-Gas share calculated as at the completion date.

The Put Option Agreement is governed by English law. Any disputes arising out of, or in connection with, the Put Option Agreement are to be referred to the LCIA. The Put Option expires on November 9, 2011.

(d) Technical Services Agreements

KUB-Gas benefits from two back-to-back Technical Services Agreements (the "**TSAs**"). The purpose of the TSAs is to allow KUB-Gas to benefit from the Company's skill and expertise in further developing and operating the KUB-Gas Assets (the "**Technical Services**"). The Technical Services may either be provided directly to the relevant counterparty by the service provider, by way of secondment or by way of sub-contracting of third party goods and/or service providers.

The first TSA operates as between the Company and Loon Ukraine (the "**Head TSA**"). It is dated January 13, 2011, but is effective from January 1, 2010. It provides for the Technical Services to be provided to Loon Ukraine for the benefit of KUB-Gas. Loon Ukraine pays for the Technical Services on a time and costs basis.

The second TSA operates as between Loon Ukraine and KUB-Gas (the "**sub TSA**"). It is also dated January 13, 2011 and stated to be effective from January 1, 2010. Except as provided below, the sub TSA is drafted on substantially the same terms as the Head TSA. Under the sub TSA, Technical Services provided by the Company to Loon Ukraine pursuant to the Head TSA are passed through to KUB-Gas. However, Loon Ukraine may also provide Technical Services to KUB-Gas under the sub TSA independently of those provided to Loon Ukraine under the Head TSA. KUB-Gas pays for the Technical Services provided under the sub TSA by way of a fixed monthly fee plus costs.

The TSAs are governed by English law.

(e) KUB-Gas Gas Supply Agreements

The following is a summary of gas supply agreements executed by and between KUB-Gas and consumers:

No.	Date of execution	Name of the consumer (counterparty)	Expiry Date	Volume, min m^3 March 2010	Price[(1)] (UAH/ month)
1-КГ -2011	Dec. 1, 2010	LLC "SKHID AUTO-GAS"	Dec. 31, 2011	0.400	2793,12
2-КГ -2011	Dec. 1, 2010	LEASED ENTERPRISE "MINE NAMED AFTER O.F. ZASIADKO"	Dec. 31, 2011	0.480	2793,12
3-КГ -2011	Dec. 30, 2010	LLC "LUGANSK ADMINISTRATION OF ROAD CONSTRUCTION NO. 3"	Dec. 31, 2011	0.010	2793,12

No.	Date of execution	Name of the consumer (counterparty)	Expiry Date	Volume, min m^3 March 2010	Price[(1)] (UAH/ month)
4-КГ -2011	Dec. 30, 2010	Individual Person – Golenko Galina Mykolaivna	Dec. 31, 2011	0.010	2793,12
5-КГ -2011	Dec. 1, 2010	LLC "YUG-GAS"	Dec. 31, 2011	4.300	2715,00
6-КГ -2011	Feb. 7, 2011	LLC "ALEX-A LTD." [(2)]	Dec. 31, 2011		
7-КГ -2011	Feb. 14, 2011	LLC "INTRUST COMPANY" [(2)]	Dec. 31, 2011		
8-КГ -2011	Feb. 23, 2011	LLC "UKREMERGOHOLDING" [(2)]	Dec. 31, 2011		

Note:

(1) Including VAT and other applicable duties.

(2) Entered into agreements with these consumers but have not set any supply volumes, schedules or prices yet.

According to these supply agreements, consumers pay for gas supplies in advance (not later than the 10th day of the month in which gas is supplied) with a final settlement made after the transfer-acceptance act for the gas supplied is signed (in any event not later than the 10th day of month following the month in which the gas is supplied).

The closing exchange rate of the National Bank of Ukraine on March 25, 2011, 2011 was US$1.00 equals UAH 7.9710. At that exchange rate, the prices per cubic metre shown in the table above are a high of US$350.41 (UAH 2,793.12) and a low of US$340.61 (UAH 2,715.00) or a high of US$9.87 per Mcf and a low of US$9.59 per Mcf.

Syria

Loon Latakia, an indirect wholly-owned subsidiary of KOV, holds a 100% participating interest in the Syria Block 9 PSC, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is sufficient for commercial exploitation and SPC approves the development plan, produce oil and gas from Block 9, a 10,032 km^2 block in northwest Syria. Loon Latakia's 100% participating interest in the Syria Block 9 PSC is subject to the economic and beneficial interests described below, pending formal approval by the Syrian authorities of the assignment of a 20% and a 30% participating interest in the Syria Block 9 PSC to Triton Singapore and MENA Hydrocarbons (Syria) Limited respectively. The transactions and agreements relating to both assignments are described in greater detail below.

A 3D seismic acquisition program was completed during the first half of 2010. An arm's length third party has the right, subject to the consent of the Syrian government, to acquire a 5% interest in Block 9.

If each of the assignments described above proceeds, Loon Latakia will hold a 45% participating interest in Syria Block 9.

There are a number of key sources of information that were used for the Company's geological and geophysical interpretations in Syria. A collection of unpublished, proprietary well reports, corporate presentations, geochemical studies and graphic well logs for approximately 35 wells drilled in and around Block 9 in Syria have been combined with proprietary 3D seismic data recently acquired by the Company, 2D seismic data and gravity data to construct the exploration model being used by the Company's technical team at the present time. A regional perspective on Syrian geology and geophysics has been provided by two key Ph.D dissertations, the first by Graham Brew (Cornell University Syria Project) and the second by Mathew Hardenberg (The University of Edinburgh). The information in these comprehensive studies has been augmented with numerous published articles from the "Leading Edge", a publication of the SEG (Society of Exploration Geophysicists) and the AAPG (American Association of Petroleum Geologists) Bulletin. All sources of information used are independent of the Company.

Block 9

Block 9 is located in northwest Syria south of the City of Aleppo and immediately to the east of the City of Latakia. The block is located on the north western flank of the hydrocarbon producing Palmyrides Basin and the block, which comprises 10,032 km^2 (2,478,876 acres), is prospective for crude oil, natural gas and condensate.

Block 9 has had minimal exploration in the past with only four wells drilled. Two of these are located on the western edge of the block near the City of Latakia. The other two, Al Ghab-1, drilled in 1995 in the centre of the block and Khanasser-1 drilled in 1975 are the only other wells. Major gas and oil pipelines lie in close proximity to the initial exploration focus area in the southeast part of Block 9.

Oil and Gas Potential

The Palmyride Basin has 65 fields which have an estimated cumulative total recoverable proved and probable resource of 1.4 billion boe. The U.S. Geological Survey ("**USGS**"), estimates that the remaining potential of onshore Syria is in excess of 1.2 billion barrels of oil, 4.8 Tcf of gas and 313 million barrels of NGL. Block 9 is located approximately 20 kilometres north of a recent light oil and gas discovery at Mudawara. The Mudawara field is reported to contain over 5 MMboe in the Triassic Kurrachine dolomite. To the southeast, east and northeast of Block 9, hydrocarbons have been discovered in the Harbaja, Habari, Tel Alied and Safayeh-Wahab complexes respectively.

Oil from seeps along the Mediterranean coast are believed to have been collected and used in historic times but the first modern oil well drilled in Syria was in 1956 and the first significant natural gas well was drilled in 1982. Two years ago, a few kilometres to the west of Block 9, a Syrian construction project in the coastal city of Latakia, which lies on the flank of the El-Kabir Graben, discovered oil at a depth of 16 metres while excavating for a new building. Daily volumes of up to 140 bopd of 26^o to 30^o API oil were produced for several months from this building excavation site. The produced oil was fresh and not biodegraded and initial geochemical work on the oil matches it to a Silurian source virtually identical to oil produced in southern Turkey. This may indicate potential for an extensive new Palaeozoic play in the western area of the block. Within the area of Block 9, in the El-Kabir Graben, the Fido-1 and Latakia-1 wells which were drilled in the early 1980s on older vintage 2D seismic had numerous hydrocarbon shows even though they were not drilled on any obvious seismically defined structure. In 2010, a study was undertaken by KOV to collect seep material, conduct geochemical analysis of the material and geologically correlate the material to hydrocarbon source rocks in the basin.

The Palmyride sedimentary basin, with an estimated sediment thickness of up to 9,000 metres, is one of the primary source areas for the hydrocarbons resources of Syria. Significant discoveries such as the Cherrife, Ash Shaer, and Abu Rabah fields have been made in the central portion of the Palmyrides Basin in the Triassic dolomite fold and thrust play. Along the south eastern flank of the basin, major discoveries were made at Arak, Al Heil, Doubayat and Soukhneh in Permo-Carboniferous sandstones. To the northeast of Block 9 heavy oil (15 to 16° API) is predominant and production over the last decade has increased substantially as secondary and tertiary oil recovery techniques have been effectively used to increase productivity.

The initial exploration efforts of the Company will focus on the south eastern corner of Block 9 where a large gravity feature, which coincides with a large structural feature defined by 2D seismic, has been identified on the north-western flank of the Palmyrides Basin. Khanasser-1, the only well drilled on the block in this eastern region, is located approximately 15 kilometres north of the main gravity feature. The Khanasser well had hydrocarbon shows in several reservoir sections and was drilled completely off-structure according to a 1976 third party engineering evaluation. The relationship of this well to the subsurface geology was confirmed by results of the recent reprocessing of 2D data and subsequent mapping of the area undertaken by KOV in the last half of 2008.

Surrounding and downdip from the apex of the gravity anomaly are numerous oil discoveries including the Mudwara oil and gas field approximately 20 kilometres to the south of the Block 9 focus area. The discovery well at Mudawara tested 136 bopd of 28° to 31° API oil from Triassic/Jurassic carbonates and 8 MMcf/d of natural gas. The operator of the Mudawara area has subsequently acquired a 3D seismic survey over the field to aid in development. Approximately 20 kilometres to the southeast of Block 9 and approximately 20 kilometres to the east of Mudawara is the 2004 Harbaja discovery. The discovery well and the appraisal well at Harbaja tested 44 bopd from the Permo-Carboniferous Amanous Sandstones and 113 bopd of 31.5° API medium oil from the Triassic

Kurrachine dolomites respectively. To the east, downstructure at the Harbari structural complex, approximately 20 kilometres to the east of the southeast corner of Block 9, Habari-2 tested 25 bopd of 20° API oil from sandstone reservoirs of Cretaceous age.

The primary target for the first drilling campaign will be oil in the Ordivician and Permo-Carboniferous sandstones. These sandstones are found throughout the Palmyride Basin and have good quality reservoir properties. The Homs Depression lies just southwest of Block 9 and contains 6 to 9 km of sedimentary section. The large structural feature identified in Block 9 lies on a direct hydrocarbon migration pathway from this depression where both the prolific Silurian Tanuf source rock, the major source of light hydrocarbons in the Middle East/North Africa area, and the Permo-Triassic Amanous shales, the source of the heavy oils in Safayeh-Wahab complex, are interpreted to be within the oil generating window. This primary target is the key play type in the geologically similar southeast flank of the Palmyrides Basin (Akkas, Arak, Al Heil, Doubayat and Soukhneh oil fields) and is confirmed on the northwest flank of the basin by Permo-Carboniferous hydrocarbon discoveries such as Harbaja, Tel Abyad and Al Hussein.

KOV expects that secondary targets for oil exploration in the area of Block 9 will be the Cretaceous Hayane limestones and dolomites, the zones from which a number of the wells near to Block 9 tested hydrocarbons.

Value creation potential in Block 9 exists for the development of hydrocarbons in: (i) large structural features associated the large gravity anomaly in the southeast part of the block; (ii) subcrop stratigraphic and structural plays associated with the flanks of the prolific Palmyrides basin; and (iii) accumulations of oil and/or natural gas in the under-explored El Kabir Graben which has a proven working petroleum system.

Resource Potential

RPS has made an assessment of the prospective oil and gas resources within Block 9 and has prepared the RPS Syria Block 9 Report. In preparing the RPS Syria Block 9 Report, RPS took a comprehensive review of all the available technical data as a basis for evaluating the potential of Block 9 and made a calculation of prospective resources for the identified prospects effective as at December 31, 2010. Two prospects, Itheria and Bashaer have been identified by the Company based on the 3D seismic and geological data interpreted by the Company's technical personnel. Both are located in southeast focus area of Block 9.

The prospective oil and gas resources identified in the RPS Syria Block 9 Report within the Itheria and Bashaer prospects are summarized in the tables below. It should be noted that there is no certainty that any portion of these resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

PROSPECTIVE RESOURCES(1) (Unrisked 100% Interest)				
Prospect	**Resource Category**	**Low Estimate(2)**	**Best Estimate(3)**	**High Estimate(4)**
Itheria	Oil (MMBLS)	80	300	677
	Gas (BCF)	57	225	530
	Total MMBOE	**90**	**338**	**765**
Bashaer	Oil (MMBLS)	50	94	165
	Gas (BCF)	25	47	82
	Total MMBOE	**54**	**102**	**178**
Total(5)	Oil (MMBLS)	146	400	819
	Gas (BCF)	95	276	595
	Total MMBOE	**162**	**446**	**919**

PROSPECTIVE RESOURCES[1] (Unrisked 45% KOV Effective Interest)				
Prospect	**Resource Category**	**Low Estimate[2]**	**Best Estimate[3]**	**High Estimate[4]**
Itheria	Oil (MMBLS)	36	135	305
	Gas (BCF)	25	101	239
	Total MMBOE	**40**	**152**	**344**
Bashaer	Oil (MMBLS)	22	42	74
	Gas (BCF)	11	21	37
	Total MMBOE	**24**	**46**	**80**
Total[5]	Oil (MMBLS)	66	180	369
	Gas (BCF)	43	124	268
	Total MMBOE	**73**	**201**	**413**

Notes:

(1) "Prospective resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated change of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

(2) "Low estimate" is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.

(3) "Best estimate" is considered to be the best estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.

(4) "High estimate" is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.

(5) The Low, Best and High estimates are summed probabilistically and will not sum arithmetically.

The basis for the foregoing estimates was the interpreted 3D seismic survey and available well and field data from the area and, consequently, there is a wide range of uncertainty in the estimated volumes. The prospective oil resources estimates above assume the hydrocarbon present in both prospects is oil, not gas/condensate. RPS believes that there is a 25% chance that the deeper sandstone formations may be gas/condensate bearing. In such case, the total resources may be increased due to the high reservoir pressure in the deep formations and higher recovery factor estimates for gas/condensate reservoirs as compared to oil reservoirs.

According to the RPS Syria Block 9 Report, the risks associated with recovery of the prospective resources from the Itheria prospect include:

- The amount of erosion below the Cretaceous conformity (Rutbah) is uncertain.
- There is potential to erode some of the Triassic source rock, or even the Tanf shale cap rock.

- Poor deep well control.

The requirement for faults to seal was identified by RPS as a risk associated with recovery of the prospective resources from the Bashaer prospect.

Current Activity and Future Plans

In 2010, the Company completed the acquisition of 420 km^2 of 3D seismic data in the southeast corner of Block 9. The primary purpose of the new 3D survey was to better outline the size of the prospects already defined by the Company using 2D seismic data in the southeast focus area and to provide information that will help to accurately define the optimum drilling locations. Geophysical interpretation of the processed data has been integrated with the Company's understanding of the geology of the area and two prospects have been defined. An exploration well (Itheria-1) to test the first prospect is expected to spud late in the second quarter or early in the third quarter of 2011. The second well, Bashaer-1, will spud shortly after the drilling of Itheria-1 has been finished.

Material Agreements

(a) Contract for the Exploration, Development and Production of Petroleum

The Company entered into the Syria Block 9 PSC with the Government of the Syrian Arab Republic, represented by the Ministry of Petroleum and Mineral Resources and SPC on September 20, 2007 and it became effective on November 29, 2007. The Syria Block 9 PSC gives the Company the right to explore for and, provided that, in opinion of the parties to the agreement, discovered volumes of oil and gas are commercial and SPC approves the Block 9 development plan, produce oil and gas from Block 9, comprising 10,032 km^2 (2,478,876 acres) in northwest Syria. Following the execution of the agreement, the Company's interests were assigned to Loon Latakia.

(b) Triton Block 9 Agreement

As part of the consideration for the Triton Acquisition, Loon Latakia agreed to hold a 20% beneficial interest in the Syria Block 9 PSC for Triton Singapore pending approval by the Syrian authorities of a formal assignment of a 20% direct participating interest in the Syria Block 9 PSC. Upon receiving that approval, the beneficial interest described above will automatically be extinguished. If that approval is not given, Loon Latakia will issue to Triton Singapore an amount of shares in Loon Latakia such that Triton Singapore is put in the same economic position as it would have been had the assignment of the 20% direct participating interest in the Syria Block 9 PSC been duly approved by the Syrian authorities.

Triton Singapore and Loon Latakia are currently in the process of seeking the Syrian authorities' approval to the formal assignment to Triton Singapore of a 20% participating interest in Syria Block 9.

(c) Consulting Agreement

On April 20, 2006, the Company entered into a consulting agreement with Uniconsult Middle East ("**UME**"), a private Syrian company, under which it agreed to retain the services of UME in the event that it acquired the right to explore for and produce oil and gas from Block 9 and agreed to grant to UME the right to acquire a 5% interest in Block 9 (the "**UME Right**"), subject to the approval of the Ministry of Petroleum and Mineral Resources and SPC. On June 2, 2007, with the consent of KOV, UME assigned the UME Right to Ansco Inc., a private company incorporated under the laws of the State of California, USA.

(d) MENA Farmout Agreement

On September 1, 2010, Loon Latakia and MENA Hydrocarbons (Syria) Ltd. ("**MENA Syria**") entered into a farm-out agreement (the "**MENA Agreement**") effective as of June 17, 2010. Under the terms of the MENA Agreement, MENA Syria agreed to: (i) acquire a 30% interest in Block 9 by repaying to the Company 30% of approximately US$10.4 million in expenditures incurred up to the date of the MENA Agreement; (ii) fund 60% of the costs to drill the first exploration well on Block 9; and (iii) assume liability for 30% of the bank guarantee posted by the Company with respect to Block 9. To allow MENA Syria sufficient time to finance their obligations under the

MENA Agreement, the MENA Agreement provided that MENA Syria would pay the amounts payable under the MENA Agreement on or prior to December 17, 2010. The MENA Agreement was subsequently amended on October 14, 2010 to amend the cut-off date for certain payments by MENA Syria under the MENA Agreement from December 17, 2010 to February 15, 2011 and a payment of US$1 million was made by MENA Syria to Loon Latakia. The MENA Agreement was amended again on January 13, 2011 to amend the cut-off date from February 15, 2011 to April 14, 2011 and a second payment of US$1 million was made by MENA Syria to Loon Latakia.

On March 17, 2011, the Company was informed that the Syrian authorities had approved the assignment of a 30% participating interest in Syria Block 9 to MENA Syria. Consequently, MENA Syria now holds a direct 30% participating interest in Syria Block 9.

(e) Joint Operating Agreement

On September 1, 2010, Loon Latakia, MENA Syria and Triton Singapore entered into a Joint Operating Agreement in respect of their joint exploration for, and development and production of, hydrocarbons in Syria Block 9 (the "**Block 9 JOA**"). Loon Latakia is designated as 'Operator' under the Block 9 JOA. The Block 9 JOA sets out the terms and conditions that govern the conduct and relationship of the parties amongst themselves in respect of Syria Block 9. The Block 9 JOA is based on the model form operating agreement issued by the Association of the International Petroleum Negotiators ("**AIPN**"). The Block 9 JOA is effective as regards Triton Singapore and MENA Syria's respective beneficial interests in the Syria Block 9 PSC and the same way it will be once Syrian authorities consent to the assignment of Triton Singapore and MENA Syria's direct participating interests as described above.

As a party to the Block 9 JOA, Loon Latakia must pay its participating interest share of Joint Account Expenses (as defined in the Block 9 JOA), including cash advances and interest accrued pursuant to the Block 9 JOA, when such contributions are due. Loon Latakia is also obliged to obtain and maintain any security required of it under the Block 9 JOA or the Syria Block 9 PSC.

(f) Guarantee

In accordance with the terms of the Syria Block 9 PSC, the Company posted a guarantee in respect of its work commitment in the amount of US$7.5 million. As at December 31, 2010 the Company had a total of US$5,040,992 (December 31, 2009 - US$6,758.241) remaining on the performance guarantee. Of this amount, US$1,750,000 was released in January 2011 and an additional US$250,000 is due to be released later in 2011. The reduction of the bank guarantee is due to the completion of work commitments in Syria and the farm-out agreement pursuant to which MENA Syria agreed to fund 30% of the bank guarantee.

Partners

The Company, through Loon Latakia, currently holds a participating interest of 70% in the Syria Block 9 PSC. The Company has agreements to assign an aggregate of 25% in ownership interests to third parties which are subject to the approval of Syrian authorities, and which, if approved, would leave the Company with a remaining effective interest of 45% in Syria Block 9.

If all of the assignments are approved the joint venture partners in Syria Block 9 would be: KOV (operator), 45%; MENA Syria, 30%; Triton Singapore, 20%; and UME, 5%.

Brunei

Brunei is the third largest oil producer in Southeast Asia, and a significant producer of liquefied natural gas ("**LNG**"). Brunei is located on the northern coast of the island of Borneo adjacent to the South China Sea and shares a 381 kilometre border with the Malaysian state of Sarawak. Brunei benefits from extensive petroleum and natural gas fields, the source of one of the highest per capita GDPs in Asia, estimated at more than US$48,000 for 2010. Crude oil and LNG are the main exports of Brunei.

The Company has interests in two production sharing agreements in Brunei which are described below.

Block L Production Sharing Agreement

Kulczyk Oil Brunei, an indirect wholly-owned subsidiary of the Company, owns a 40% working interest in the Brunei Block L PSA, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Block L, a 2,220 km^2 (550,000 acre) exploration and development block covering certain onshore and offshore areas of Brunei.

A 350 km^2 3D seismic survey, acquired by Kulczyk Oil Brunei and its Block L partners was completed in the second quarter of 2009. The survey was acquired in the Tutong area in the southwest section of Block L. In 2010, 3,037 line kilometres of aerial gravity and magnetic were acquired over Block L. The Company participated for its 40% working interest in two exploration wells, Lukut-1 and Lempuyang-1, which were drilled on Block L in 2010. Both wells encountered hydrocarbon indications while drilling and were cased to total depth pending further evaluation and testing.

Approximately 65% of Block L is onshore. The offshore portion of Block L lies in relatively shallow waters, and includes a seven kilometre wide strip along the northwest coast and essentially all of Brunei Bay to the east. The Seria oil field lies approximately 12 kilometres to the southwest of Block L and a natural gas discovery at Bubut announced by Brunei Shell Petroleum Company Sendirian Berhad ("**BSP**") on November 9, 2007 lies less than one kilometre from the edge of Block L in the shallow offshore region. According to a technical paper by BSP in 2008, the Bubut-2 well, 400 to 500 metres from the Block L boundary, logged more than 190 metres of hydrocarbon pay in Miocene reservoir sands. Recent interpretations of seismic information by the Company suggest that between three to six km^2 (700 to 1,400 acres) of the Bubut structure may extend into Block L. It has been reported by BSP that Bubut, along with the 1970 Danau oil and gas discovery, lying less than three kilometres from the Block L boundary, will be developed contemporaneously by 2012 to supply natural gas which would be converted to LNG for export.

Block M Production Sharing Agreement

KOV Borneo, an indirect wholly-owned subsidiary of the Company, owns a 36% interest in the Brunei Block M PSA, which gives it the right to explore for and, if the parties to the agreement establish that the discovery is capable of commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and gas from Block M, a 3,011 km^2 (744,000 acre) exploration and development block covering certain onshore and offshore areas of Brunei. A 118 km^2 3D survey was shot by KOV Borneo and its joint venture partners over the Belait oil and gas field in the central portion of Block M in the second and third quarters of 2009. In the second and third quarters of 2010, a 136 km^2 3D seismic survey was completed in the area north of the Belait 3D and south of Block L in fulfillment of the contractual seismic commitments of both the Phase 1 and Phase 2 exploration periods on Block M. The Company participated to the extent of its 36% working interest in two wells, Markisa-1 and Mawar-1, which were drilled by the Company and its partners on Block M in 2010. Both wells encountered hydrocarbon indications while drilling and were cased to total depth pending further evaluation and possible testing.

The area of Block M is generally jungle covered and mostly low lying, except where elevated over structural features such as the Belait Anticline. The giant billion barrel Seria oil field lies directly adjacent to the western boundary of Block M. BSP, the operator of Seria, continues to find new reserves on the flanks of Seria and in deeper reservoirs after more than 80 years of development. The Belait oil and gas field, which lies within Block M, was discovered in the early 1900s and has produced oil and gas on a limited basis with reported cumulative oil production of 32,000 barrels of oil and tested gas rates as high as 15 million cubic feet of gas per day. Numerous wells reported hydrocarbons on test and indications of hydrocarbons through mud logs and log analysis. The initial focus of exploration on Block M by the Company and its partners continues to be the Belait anticline area.

Oil and Gas Potential

Brunei, which is underlain by a geologic feature known as the Baram Delta, is well known for the significant reserves of petroleum and gas which have fuelled the nation's economy for more than 75 years. The BP Statistical Review of World Energy 2009 indicates that the Baram Delta petroleum system within Brunei has produced 2.4 billion barrels of oil and 5.9 Tcf of natural gas and has proven reserves of 1.1 billion barrels of oil and 12.4 Tcf of natural gas. In addition, the USGS estimated that oil resources of 1.6 billion barrels and natural gas resources of 11.3 Tcf of natural gas remain to be discovered in Brunei.

Value creation potential in Block L exists for:

(a) medium to high risk exploration for oil and/or natural gas in the structural features underlying the Tutong 3D survey area to the east of the giant Seria field directly on trend with the under-explored Belait Anticline;

(b) medium risk exploration and exploitation of accumulations of natural gas along the coastal strip in close proximity to the recently announced discovery at Bubut and earlier discoveries at Danau and Scout Rock;

(c) medium risk development or exploitation opportunities for both oil and natural gas in the onshore Jerudong field and in a shallow and offshore area to the northwest of Jerudong which is covered by an existing 3D seismic survey; and

(d) medium risk exploration for natural gas in the structures underlying Brunei Bay.

Value creation potential in Block M exists for:

(a) low to medium risk development and exploitation of the Belait oil and gas field utilizing the new 3D seismic survey;

(b) medium risk exploitation / exploration for oil on the eastern flank of the giant Seria field;

(c) medium to high risk sub-thrust and intra-thrust structures which may contain oil or natural gas along the Belait Anticline trend; and

(d) higher risk potential for oil or natural gas accumulations in structural culminations identified by the new gravity / magnetic survey.

Block L

The south western part of Block L and, in particular, the area where the 3D seismic survey was shot, is underlain by a substantial thickness (up to 4,000 metres) of sediments. The deepest zones comprise a sequence of deformed clastics and subordinate carbonates ranging in age from Late Cretaceous to Early Miocene. These rocks are overlain by a younger, less-deformed series of pro-gradational deltaic systems of Middle Miocene to Quaternary age. Trapping may be stratigraphic or structural and in most cases would be both. Primary targets underlying Block L are the Belait and Miri Formations of Miocene age.

It is generally recognized that a combination of significant clusters of oil and gas seeps, rudimentary geologic mapping and gravity interpretations led early explorers to success in finding the Miri, Seria, Jerudong and Belait fields. Within the area of the recent 3D seismic acquisition survey on Block L, along the trend of the Belait Anticline, there are more than fifty oil and gas seeps clustered in the Simbatang area. BSP drilled eight shallow exploration wells within the cluster between 1914 and 1918. All of these wells intersected good quality reservoir sands with gas and oil shows which at that time were deemed non-commercial.

Prospects arising from KOV's interpretation of the 3D seismic integrated with geology and well data by the technical personnel of KOV include:

- *Lempuyang* - The Lempuyang Prospect is a large faulted three-way closure with seismic amplitude anomalies that may be indicative of oil or gas in each of the prospective fault blocks. The main target occurs at a depth of 7,900 feet (2,400 metres) in the deltaic sediments. The target section was penetrated in a structurally lower position in one of the prospective fault blocks by the Birau-2 well. This well encountered coarsening upwards, porous deltaic sand sequences comprising the potential reservoir section in the Lempuyang prospect. In addition to demonstrating the presence of reservoir, this well also encountered strong indications of gas and some oil fluorescence as indicated on the mud log and in the final well report. The Lempuyang Prospect is supported by stacked amplitude anomalies that occur in a structurally higher position than the Birau-2 well and which exhibit a reasonable fit to structure.

- Lempuyang-1 commenced drilling in mid-July 2010 and reached a total depth of 3,220 metres in early October. The well encountered significant gas and cuttings shows and interpretation of wireline logs indicated three potential hydrocarbon-bearing zones. The joint venture partners in the well decided to test the two main zones with an aggregate gross thickness of 56.4 metres. Testing began in early February 2011 and the lowest zone, with a thickness of 22 metres, flowed water and a minor amount of gas. The second zone had gas flowing to surface and being flared and the well was cleaning up when a mechanical failure resulted in a loss of the pressure integrity of the downhole test equipment. The test was terminated without any measurement of gas rate and the well was suspended pending arrival of replacement equipment.

- *Languas* - The Languas Prospect is a large, nearly contiguous three-way closure with amplitude support over most of the prospect. The objective section occurs at a depth of 11,500 feet (3,500 metres) in deltaic sediments overlying the geo-pressured Setap shale as indicated by seismic stratigraphy. This section has not been penetrated in any of the wells located on Block L. However, the BL-18 well in Block M to the south encountered thick, clean Ridan sands in a comparable stratigraphic position consistent with the reservoir section expected in the Languas Prospect.

- *Letup Letup* - The Letup Letup Prospect is a four-way fault independent structural closure within the area of the Tutong 3D seismic survey. Reservoir section is expected to be similar to the productive Ridan Sands in the Belait Field. Structure is very low relief and has fair seismic amplitude.

- *Yellow Fin* - The Yellow Fin Prospect is a large three-way faulted closure with amplitude support over most of the prospect. The objective section occurs at an intermediate depth of approximately 2,000 metres in the Belait Formation. This section has been penetrated by a number of wells in the area which had oil and gas shows.

- *Lukut* - The Lukut Prospect (formerly identified as Simbatang South) is a large three-way faulted closure with amplitude support over most of the prospect. The objective section occurs at a shallow to intermediate depth of approximately 1,600 to 2,000 metres in the Belait Formation. This section has been penetrated by a number of wells in the area which had oil and gas shows. A cluster of Simbatang oil and gas seeps lies on the northern edge of the prospect.

- The Lukut-1 well was drilled in the second quarter of 2010 to a total depth of 2,366 metres. The well encountered gas shows and indications of hydrocarbons in the well cuttings over much of the drilled section and interpretation of wireline logs indicated ten potential reservoir zones. The well was cased to total depth pending further evaluation with the initial plan being to test the well in 2011 after the completion of the testing program on the Lempuyang-1 well.

Other prospects in the Block L area based on 2D seismic data, geological interpretation and the analysis of information from wells previously drilled in the area of Block L include:

- *Bubut Extension* - The Bubut gas field is located approximately seven kilometres offshore from the Lumut/Tutong area of Block L. The discovery well, Bubut-1, was drilled by BSP in 1993 but the discovery was not formally confirmed until November 2007 after BSP drilled the Bubut-2ST in 2007, BSP also announced at that time that a development team had been put in place to prepare an integrated field development proposal for early production from the Bubut-Danau area directly into the LNG plant. The surface location of Bubut-1 is approximately 500 metres from the boundary of Block L and the surface location of the Bubut-2 is approximately 800 metres from the Block L boundary. A review of available seismic information by the Company suggests that the Bubut gas accumulation extends onto Block L.

- *Jerudong* - The Jerudong Prospect occurs in the fault block which contained the productive Jerudong 2, Jerudong-9 and Jerudong-6 wells. The complex 3-way faulted trap contains known resource volumes with tested reservoirs.

- *Binturan* - The three way dip closed Binturan Prospect lies offshore on trend with the Scout Rock oil and gas complex along the structural ridge which runs parallel to the shale-cored anticline trend which runs from the Champion field to the Point Punyit Prospect to the area of the Jerudong Prospect.

- *Point Punyit* - The Point Punyit Prospect lies three to five kilometres offshore from the Jerudong area along the same shale-cored ridge that creates the giant "Champion" Field. Partially covered by 3D data, the prospect lies on the east limb of the anticline and relies on cross-faulting to create the trap.

- *East Muara* - The East Maura Prospect, located in Brunei Bay, is a tested structure. It is a four-way dip closed inversion anticline within the hanging wall of a major reverse fault which is known to contain natural gas.

- *Brunei Bay Prospect Cluster* - Five structural prospects are located to the northeast and southwest and along trend with the East Maura gas discovery. The collection of 4–way and 3–way faulted structures lie along the hanging wall of the same major reverse fault which has resulted in the East Maura culmination.

Block M

Immediately to the east of the prolific Seria Anticline is the Belait Anticline which follows a similar SW to NE trend. The Belait Anticline underlies much of the central part of Block M and continues north into Block L underlying the area of the recent Tutong 3D seismic survey. The anticline is one of two primary structural features that dominate Block M and the southern part of Block L and it is clearly identified on the gravity / magnetic survey data recently acquired in Block M. The other primary feature is the Belait Syncline which widens and plunges to the north and dies out towards the south. The Belait anticline is bordered on the west by the westward verging Belait Fault, a large reverse fault with significant throw, and a series of en-echelon, eastward-verging, reverse faults on the western flank of the Belait Syncline.

The trap geometry of the Belait Field is a large, sharply folded and faulted anticline. The field covers almost 122 km^2 (30,000 acres) and is interpreted to be a thrusted pop-up structure on a pronounced wrench fault complex. There are likely multiple fault compartments complicated by irregular sands deposited in a coastal depositional environment (bars, beach, channels, deltas, etc.) meaning stratigraphic traps, or at least a large stratigraphic component in the trapping mechanisms. Sand units would be expected to pinch out to the northwest, thus stratigraphic traps would be best developed on the eastern side of the Seria and Belait anticlinal structures.

The primary reservoir targets in Block M are found in the Belait Formation. The Belait Formation is comprised of coarse fluvial and deltaic sands and shales with some coals and lignites. The Belait Formation was deposited over an eroded surface of the Temburong Formation. The fluvial sequence passes upwards into transgressive shallow marine represented by the coarsening upwards shoreface sands found in the Seria Field.

The Block M joint venture group is focused on implementing phased exploration programs, including the reprocessing and re-interpretation of existing seismic, the acquisition of new geophysical data and preparation for testing one of the two wells (Markisa-1) drilled in 2010. This work has included the acquisition of 254 km^2 of 3D seismic, 60 km of 2D seismic and a full block coverage gravity / magnetic airborne geophysical survey. Data from this work will be utilised by the joint venture participants in Block M in the formulation of an appraisal and development plan for the Belait Field.

In addition to the Belait Field development project, 15 exploration prospects/leads have been identified in Block M. Some prospects on Block M arising from the interpretation of geological and geophysical data, review of data from an aero gravity and magnetic survey of the areas carried out in 2008 and from the analysis by KOV technical personnel of information from wells previously drilled in the area of Block M include:

- *Merawan* – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. This sub-thrust prospect has reservoirs similar to those tested by the Belait-13 and Belait-16 wells in a lower structural position. The potential trap is located beneath the Mawar/Markisa field area.

- *Mayapis* – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. Equivalent sands were tested by the Belait-13 well in a lower structural position and by the Belait-5 well, which is structurally higher than the Belait-13 well. The potential trap is located to the south of these wells in the area between the Belait Fault and an east-west trending normal fault.

- *Northern Sub-Thrust* – this prospect will test potential oil and gas reservoir sands on the footwall of the Belait Fault. This sub-thrust prospect has reservoirs similar to those tested by the Belait-13 and Belait-16 wells in a lower structural position. The potential trap is located north of the 2009 3D area.

- *Mahawu* – this prospect will test potential oil and gas reservoir sands in the intra-thrust zone east of the primary Belait Fault. This intra-thrust prospect has reservoirs similar to those tested by the Belait-12 in a lower structural position. The potential trap is located on the northwest end of the 2009 3D area and extends into the new 2010 3D area.

- *Mengkudu* – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment immediately north northeast of the Mawar/Markisa fault block. This over-thrust prospect has reservoirs similar to those tested by the Belait-16, Belait-15 and Belait-10 in a lower structural position.

- *Mahogani* – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment immediately north of the 2009 3D area. This over-thrust prospect has reservoirs similar to those tested by the Belait-15, Belait-7 and Belait-12 in a lower structural position.

- *Mengkuang* – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a large fault compartment north of the 2009 3D area. This over-thrust prospect has reservoirs similar to those tested by the Belait-15, Belait-7 and Belait-12 in a lower structural position.

- *Melur* – this prospect will test potential oil and gas reservoir sands in the over-thrust zone in a fault compartment south of the Mawar/Markisa discoveries. This over-thrust prospect has reservoirs similar to those tested by the Belait-18, Belait-17, Mawar-1 and Markisa-1.

Resource Potential

Block L

No current assessment of the resource potential of Block L has been prepared**.**

Block M

RPS has been retained to prepare an assessment of the prospective resources and contingent resources within Block M. As of the date of this AIF, the final report has not been received.

Exploration Activity and Future Plans

Seismic Programs

<u>*Block L*</u>

On Block L, a 350 km^2 3D seismic acquisition program, to assist with the evaluation of the potential of the southwest part of Block L nearest to the Seria oil field, was completed in the Tutong area on May 8, 2009. Processing of the acquired data was completed in the autumn of 2009 and interpretation of the processed data by the technical personnel of KOV assisted in the definition of five prospects which, in the opinion of the management of

KOV, have potential to contain hydrocarbons. Two of these prospects were drilled in 2010. For 2011, preliminary plans are being made to collect a selection of 2D seismic data in the Lempuyang/Lukut area as well as a possible 3D seismic survey in the Jerudong area. This 2011 seismic program will fulfill the Phase 2 seismic commitments for Block L.

<u>*Block M*</u>

The Block M partners acquired a total of 118 km^2 of 3D seismic data in 2009 in the area of the earlier Belait gas discovery, 33 kilometres of 2D information was acquired to the south of the 3D area and 27 kilometres of 2D information was acquired in the area between the Belait oil pool and the Tutong area of Block L. Processing and interpretation of the acquired data was completed later in 2009 and interpretation of the processed data by technical personnel of KOV and its Block M partners assisted in the definition of the two drilling locations incorporated into the 2010 drilling campaign. In the second and third quarters of 2010, a 136 km^2 3D seismic survey was completed immediately north of the Belait 3D area to complete all contractual commitments for the Phase 1 and Phase 2 exploration periods for Block M.

Further activity on Block M will be determined based on the results of the additional seismic data and the 2010 drilling campaign.

Aero Gravity and Magnetic Programs

<u>*Block L*</u>

In 2010, 3,037 line kilometres of aerial gravity and magnetic measurements were collected over Block L, with the final report being issued in January 2011.

<u>*Block M*</u>

In 2008, a total of 3,745 line kilometres of gravity and magnetic measurements were collected over Block M. Data processing was completed in January 2009 and a final report was provided in March 2009.

Drilling & Testing

<u>*Block L*</u>

KOV participated in the drilling of two exploration wells on Block L in 2010.

The Lukut-1 well, which was spud May 2, 2010, was drilled to a total depth of 2,366 metres. Gas logs which evaluated the hydrocarbon content of the drilling fluid during the drilling operation showed a continual increase in gas content with indications of C_1 to C_5 over the interval from 1,745 metres to 2,230 metres. An interpretation of wireline logs indicated 10 zones of potential and the well was cased to total depth in June 2010 and suspended pending future testing. Current plans are to test 3 of the 10 potential zones with testing currently expected to commence in May 2011.

The Lempuyang-1 commenced drilling in mid-July 2010 and reached a total measured depth of 3,220 metres (true vertical depth of 2,817 metres). Significant drilling challenges related to managing overpressured zones encountered during the drilling of the well contributed to the number of days between spud and the reaching of total depth and to the cessation of drilling above the 3,500 metre level which had originally been projected for this well. Overpressure was expected and was accounted for in the original well design. However, several significant gas kicks encountered while drilling meant that the design needed to be modified to suit the conditions in the wellbore. Three of the four target horizons were fully penetrated by the wellbore. Interpretation of wireline logs indicated possible gas charged reservoirs at each of three lowest target horizons and the well was cased to total depth and suspended pending future testing.

The joint venture partners in Block L decided to test two of the three zones with an aggregate thickness of 56.4 metres. The first of these was perforated in early February 2011 and flowed water (potentially from one of the overpressured sands below) and a small amount of gas. The second test was flowing gas to surface and was cleaning up when a mechanical failure resulted in a loss of the pressure integrity of the downhole test equipment. The test was terminated without any measurement of gas rate and the well was suspended pending arrival of replacement equipment. Testing is expected to resume in April 2011.

Block M

KOV participated in the drilling of a two wells on Block M in 2010. The Mawar-1 well, spud on August 25, 2010, was drilled to evaluate multiple sandstone objectives within the Middle to Late Miocene Belait Formation. It reached a total depth of 1,292 metres in mid-September and interpretation of drilling information together with wireline logs suggested that natural gas had been encountered in the primary objective (Ridan Sandstone) with a 25 metre thickness of Ridan reservoir indicated at a depth of 1,005 metres. A deeper secondary objective (Rampayoh Series) had good hydrocarbons indications in cuttings and sidewall cores in an interbedded sand-shale sequence. Mawar-1 was cased to total depth and suspended pending future testing.

Markisa-1 was drilled on a prospect indentified on a 3D seismic data acquired by the Block M joint venture partners in 2009. It was drilled to evaluate the potential of a sandstone reservoir that produced oil in the 1920s and 1930s in an adjacent fault block. The Markisa-1 well was spud in late September 2009 and reached a total depth of 1,300 metres prior to the middle of October. The well encountered good oil shows through the Ridan Sandstone interval from 1,070 metres to 1,100 metres over a true vertical thickness of 29 metres. The well was cased to total depth and suspended pending future testing.

Testing of the Mawar and Markisa wells may be deferred until after the drilling of wells during Phase 2 of the exploration program.

Material Agreements

Block L

(a) Production Sharing Agreement

Kulczyk Oil Brunei and QAF entered into the Brunei Block L PSA dated August 28, 2006 with PetroleumBRUNEI, which granted to Kulczyk Oil Brunei and QAF the right to explore for and, if the parties decide that the discovered resources are sufficient for commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and natural gas from Block L. As of the date of the Brunei Block L PSA, Kulczyk Oil Brunei held a 90% working interest and QAF held a 10% working interest in the Brunei Block L PSA. The Company subsequently assigned a 50% interest in the Brunei Block L PSA to AED South East Asia Ltd. The Brunei Block L PSA was entered into for a period of 30 years. In August 2010, the Company and its joint venture partners in Block L, elected to proceed with the Phase 2 exploration program under the Brunei Block L PSA.

The Brunei Block L PSA provides PetroleumBRUNEI or its nominee with a right to acquire up to a 15% participating interest in Block L (the "**Block L Back-In Right**") at any time. The Block L Back-In Right will be taken pro-rata from the existing contractor parties' respective participating interests in the Brunei Block L PSA. If PetroleumBRUNEI exercises the Block L Back-In Right during the exploration period under the Brunei L PSA, its participating interest would be carried by the other contractor parties pro rata to their respective participating interests until expiry of the exploration period (after which it must bear its pro rata share of expenses). If PetroleumBRUNEI exercises the Back-In Right after expiry of the exploration period, it must pay its pro rata share of expenses.

(b) Operating Agreement

Kulczyk Oil Brunei entered into an operating agreement dated August 28, 2006 (the "**Block L Operating Agreement**") with QAF, initially appointing Kulczyk Oil Brunei as the operator. The Block L Operating Agreement sets out the terms and conditions that govern the conduct of the parties amongst themselves and the conduct of petroleum operations by the parties within Block L. The Block L Operating Agreement is based on the model form operating agreement issued by the AIPN. The purpose of the Block L Operating Agreement is to establish the respective rights and obligations for the parties with regard to operations under the Block L PSA including the joint exploration, appraisal, development, production and disposition of any crude oil or natural gas produced from Block L.

As a party to the Block L Operating Agreement, Kulczyk Oil Brunei must pay its participating interest share of Joint Account Expenses (as defined in the Block L Operating Agreement), including cash advances and interest accrued pursuant to the Block L Operating Agreement, when such contributions are due. Kulczyk Oil Brunei is also obliged to obtain and maintain any security required of it under the Block L Operating Agreement or the Brunei Block L PSA.

Pursuant to the agreement of assignment, assumption and amendment to the joint operating agreement dated May 12, 2008 (the "**Amending Agreement**"), Kulczyk Oil Brunei assigned to AED South East Asia an undivided 50% of its undivided 90% participating interest in the Block L Operating Agreement. In addition, under the terms of the Amending Agreement, Kulczyk Oil Brunei resigned as Operator and AED South East Asia was appointed as Operator, becoming effective May 23, 2008. The Company is not aware of any breach of the Block L Operating Agreement by any party. The Block L Operating Agreement has the same term as the Brunei Block L PSA.

(c) Option Agreement

On April 23, 2007, Kulczyk Oil Brunei signed an option agreement (the "**Option Agreement**") with AED South East Asia, then a wholly-owned subsidiary of Nations Petroleum Company Ltd., a private international oil and gas company under which AED South East Asia could acquire a 50% interest (the "**AED South East Asia Option**") in the Brunei Block L PSA from Kulczyk Oil Brunei. In consideration of the granting by the Company of the AED South East Asia Option, AED South East Asia agreed to pay Kulczyk Oil Brunei the money spent by Kulczyk Oil Brunei in connection with the Brunei Block L PSA from August 28, 2006 up to the date of the Option Agreement and fund 100% of the cost and expense of implementing the approved Phase 1 work program and budget, which included reprocessing existing seismic data and acquiring processing and interpreting a minimum of 300 km^2 of onshore 3D seismic in Block L. The Option Agreement resulted in Kulczyk Oil Brunei being reimbursed for approximately US$1.4 million of previously incurred costs.

On January 28, 2008, AED South East Asia gave notice of its exercise of the AED South East Asia Option and by deed of assignment dated May 23, 2008, AED South East Asia was assigned a 50% working interest in Block L thereby reducing the interest of KOV in the Brunei Block L PSA to 40%.

On May 23, 2008, PetroleumBRUNEI consented to the exercise of the AED South East Asia Option and as part of the approval of the assignment, Kulczyk Oil Brunei and AED South East Asia agreed to spend US$4.5 million on work in addition to that specified in the Brunei Block L PSA for Phase 1 and the resulting minimum expenditure requirement for the Phase 1 exploration period under the Brunei Block L PSA was increased from US$20.5 million to US$25 million.

On November 6, 2008, PetroleumBRUNEI formally confirmed AED South East Asia as the operator of Block L under the Brunei Block L PSA.

(d) Settlement Agreement

During 2007, the Company concluded a settlement agreement (the "**Settlement Agreement**") with Bumico Sendirian Berhad and Integra Mining (B) Sendirian Berhad, both private Brunei companies, and their shareholders relating to a legal challenge to its title to the Brunei Block L PSA pursuant to which the Company made a one-time US$1.2 million payment and agreed to pay a total of US$800,000 in quarterly instalments over the succeeding 18 months and a maximum of US$3.5 million out of 10% of the Company's share of PSA Profit Oil (as defined below). Pursuant to the Settlement Agreement, all disputes are resolved and there can be no further claims or assertions brought forth in connection with this challenge to the Company's title to the Brunei Block L PSA. The final quarterly payment was paid on May 7, 2009. As of the date of this AIF, all amounts owing under the Settlement Agreement have been paid, excluding the amounts, if any, that may be payable in the future based on the Company's share of PSA Profit Oil.

(e) Guarantee

On August 28, 2006, under the terms of the Brunei Block L PSA, the Company agreed to guarantee the performance by Kulczyk Oil Brunei of all of its contractual obligations under the Brunei Block L PSA. In addition, a bank guarantee in favour of PetroleumBRUNEI in the amount of US$6.83 million was posted by the Company. In accordance with the terms of the Option Agreement, AED South East Asia replaced the bank guarantee and relieved the Company of its obligations thereunder subsequent to the approval of the assignment of a 50% interest in the Brunei Block L PSA to them in May 2008.

Block M

(a) Production Sharing Agreement

Valiant International Petroleum Limited ("**Valiant**") (now KOV Borneo), China Sino Oil Limited ("**China Oil**") and Jana Corporation Sdn Bhd ("**Jana**") (jointly, the "**Block M Contractor**") entered into the Brunei Block M PSA dated August 28, 2006 with PetroleumBRUNEI, which granted to the Block M Contractor the right to explore for and, if the parties to the agreement establish that the discovery is sufficient for commercial exploitation and PetroleumBRUNEI approves the development plan, produce oil and natural gas from Block M. As of the date of the Brunei Block M PSA, China Oil held a 60% working interest, Valiant held a 25% working interest and Jana held a 15% interest in the Brunei Block M PSA. The Brunei Block M PSA was entered into for a period of 30 years. The said agreement is being implemented according to a schedule provided therein.

On June 28, 2007, Triton acquired 100% of the shares in the capital of Valiant, whose principal asset was its right to explore for and produce oil and gas from Block M pursuant to its 25% working interest. On October 24, 2007, Valiant, a wholly-owned subsidiary of Triton, underwent a corporate name change, becoming "Triton Borneo Limited". Following the Triton Acquisition, on March 26, 2010, the name of Triton Borneo was changed to KOV Borneo Limited.

Under the terms of the Brunei Block M PSA, in the event of a third party acquisition of any of the Block M Parties, PetroleumBRUNEI must be notified immediately. Upon notification, Petroleum BRUNEI may exercise its discretion to determine if the change of control is acceptable and, if it deems the change of control to be unacceptable, it may, alone or together with the remaining Block M Parties, purchase all of the target party's interest in the Block M PSA at a price equal to the arm's length market value. On January 20, 2010, PetroleumBRUNEI advised the Company that it was waiving this right to purchase.

The Brunei Block M PSA provides PetroleumBRUNEI or its nominee with a right to acquire up to a 15% participating interest in Block M (the "**Block M Back-In Right**") at any time. The Block M Back-In Right will be taken pro-rata from the existing contractor parties' respective participating interests in the Brunei Block M PSA. If PetroleumBRUNEI exercises the Block M Back-In Right during the exploration period under the Brunei M PSA, its participating interest would be carried by the other contractor parties pro rata to their respective participating interests until expiry of the exploration period (after which it must bear its pro rata share of expenses). If PetroleumBRUNEI exercises the Back-In Right after expiry of the exploration period, it must pay its pro rata share of expenses.

In January 2011, the Company and its joint venture partners in Block M, elected to proceed with the Phase 2 exploration program under the Brunei Block M PSA.

(b) Joint Operating Agreement

KOV Borneo entered into an operating agreement in August 2006 (the "**Block M Operating Agreement**") with China Oil and Jana. Tap was assigned an undivided 39% interest in China Oil's undivided 60% participating interest in the Block M Operating Agreement under a Deed of Amendment dated February 19, 2008. Pursuant to this assignment, Tap was appointed operator under the Block M Operating Agreement. KOV Borneo acquired an additional 11 % undivided participating interest in the Block M Operating Agreement pursuant to a second Deed of Amendment dated August 11, 2008, giving KOV Borneo a 36% total interest in the Block M Operating Agreement.

The Block M Operating Agreement sets out the terms and conditions that govern the conduct of the parties amongst themselves and the conduct of petroleum operations by the parties within Block M. The Block M Operating Agreement is based on the model form operating agreement issued by the AIPN. The purpose of the Block M

Operating Agreement is to establish the respective rights and obligations of the parties with regard to operations under the Brunei Block M PSA including the joint exploration, appraisal, development, production and disposition of any crude oil or natural gas produced from Block M.

As a party to the Block M Operating Agreement, KOV Borneo must pay its participating interest share of Joint Account expenses (as defined in the Block M Operating Agreement), including cash advances and interest, when such contributions are due. KOV Borneo is also obliged to obtain and maintain any security required of it under the Block M Operating Agreement or the Brunei Block M PSA.

The obligations of KOV Borneo under the terms of the Block M Operating Agreement are comparable to the obligations of Kulczyk Oil Brunei under the terms of the Block L Operating Agreement. The Company is not aware of any breach of the Block M Operating Agreement by any party. The Block M Operating Agreement has the same term as the Brunei Block M PSA.

(c) Farmout Agreement

Pursuant to a Farmout Agreement dated May 5, 2008 between Jana and KOV Borneo, KOV Borneo was granted the right to earn (subject to the satisfaction of certain conditions) an undivided 11 % of Jana's undivided 15% working interest in the Brunei Block M PSA (the "**Earned Interest**"). As a condition of this agreement, KOV Borneo was obliged to fund Jana's remaining 4% interest in Phase 1 of the Block M Exploration Period (as defined below) until the minimum expenditure required under Block M PSA was paid, at which point, Jana began paying according to its remaining 4% working interest. Upon commencing Phase 2 of the Block M Exploration Period, KOV Borneo will again be responsible for funding Jana's 4% interest until the minimum expenditure required under the Block M PSA Phase 2 obligations are paid. From that point forward, Jana will pay according to its 4% interest and KOV Borneo will pay in keeping with its 36% interest. Further, the transfer of the Earned Interest from Jana to KOV Borneo was also conditional upon obtaining PetroleumBRUNEI's approval. Petroleum Brunei granted its approval of the transfer of the Earned Interest on June 30, 2008. Upon satisfying the remaining conditions precedent, the Earned Interest of an undivided 11 % working interest in the Brunei Block M PSA transferred to KOV Borneo, bringing its total working interest under the Brunei Block M PSA to 36%.

The value of a farm-out agreement can only be determined once the value of the underlying reserves has been determined through exploration, appraisal and development activities.

(d) Net Profit Payment

Pursuant to the terms of the Deed in Relation to Override dated February 19, 2008 between China Oil, Tap, KOV Borneo, Jana and HHD, KOV Borneo agreed to pay to Jana and HHD, on a quarterly basis, a royalty of 3.5% of the amount of net profit (as defined therein), attributable to the working interest of KOV Borneo which may be received by KOV Borneo from oil or natural gas produced or sold.

The value of net profit interest can only be determined once oil and gas reserves have been discovered and developed and net production revenues are being generated.

(e) Guarantee

On August 11, 2008, Triton and PetroleumBRUNEI entered into an agreement pursuant to which Triton guarantees the performance by KOV Brunei of its obligations under the Brunei Block M PSA.

The value of the guaranteed obligations arising from KOV Borneo's share of the work commitments with respect to Brunei Block M, is, in aggregate (for two phases), US$7.9 million. As of the date of this AIF, there is no bank guarantee posted for Brunei Block M.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves

In accordance with the requirements of NI 51-101, RPS prepared a report called "*Evaluation of Natural Gas Reserves and Resources in Ukraine as of 1st January, 2011*" (the "**RPS Ukraine Report**"). The preparation date of the RPS Ukraine Report is February 9, 2011. The effective date of the reserves estimates and revenue projection in the RPS Ukraine Report is December 31, 2010. The RPS Ukraine Report evaluates, as at the end of the 2010 fiscal year, the NGL and natural gas reserves of KUB-Gas. The Company owns an effective 70% interest in KUB-Gas. All of the company's reserves are located in Ukraine.

In preparing the RPS Ukraine Report, RPS relied upon certain factual information and data furnished by KUB-Gas and the Company with respect to ownership interests, gas production, historical costs of operation and development, product prices, agreements relating to current and future operations, sales of production, and other relevant data to December 31, 2010.

All of the information derived from the RPS Ukraine Report and disclosed in this AIF has been reviewed and approved by RPS.

Attached as Appendix "A" hereto is Form 51-101F1 "Statement of Reserves Data and Other Oil and Gas Information". Form 51-101F2 "Report of Independent Qualified Reserves Evaluator" by RPS and Form 51-101F3 "Report of Management on Oil and Gas Disclosure", prepared in accordance with the requirements of National Instrument 51-101, are attached hereto respectively as Appendix "B" and Appendix "C".

DIVIDENDS

The Company has not declared or paid any dividends in its three most recently completed financial years, and does not foresee the declaration or payment of any dividends on its Common Shares in the near future. Any decision to pay dividends will be made by the Board of Directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

The Articles of the Company do not place any restrictions on the declaration and payment of dividends by the Company. In accordance with the ABCA, the By-laws of the Company restrict the Board of Directors from declaring and the Company from paying a dividend if there are reasonable grounds for believing that the Company is, or would be after the payment, unable to pay its liabilities as they become due, or the realizable value of the Company's assets would after the payment be less than the aggregate of its liabilities and stated capital of all classes of shares.

DESCRIPTION OF CAPITAL STRUCTURE

Pursuant to the Articles, the Company may issue an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series, including an aggregate of 13,670,723 Series A Preferred Shares. As the date of this AIF, there are 402,303,330 Common Shares and no preferred shares issued and outstanding in the capital of the Company.

Common Shares

The holder of a Common Share is entitled to receive notice of and to attend all meetings of the Shareholders of the Company and to exercise one vote for each Common Share held at meetings of shareholders of the Company, and in respect of all other matters upon which the Shareholders of the Company are asked to vote upon. The holder of a Common Share is entitled to receive: (a) dividends if, as and when declared by the Board of Directors in respect of the Common Shares out of the monies of the Company properly applicable to the payment of dividends, the amount of which the Board of Directors, in their absolute discretion, may from time to time determine; and (b) *pro rata* the remaining property and assets of the Company upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the Common Shares.

Preferred Shares

Preferred shares are issuable in series with such rights, privileges, restrictions and conditions attached to each series as the Board of Directors, prior to the issuance thereof, shall determine. Each series of preferred shares rank in priority to all other shares of the Company in respect of the payment of dividends and, upon a winding up or liquidation, to receive such assets and property of the Company as are distributable to the holders of the preferred shares.

Pursuant to the Articles of the Company, the terms of any preferred shares issued by the Company from time to time in one or more series shall be determined by the Board of Directors who may by resolution fix before the issuance thereof the designation, preferences, rights privileges, restrictions and conditions attaching to the preferred shares of each series, including the redemption price and conditions of redemption, if any.

An aggregate of 13,670,723 Series A Preferred Shares, exchangeable on redemption for shares of Triton Singapore, was issued by the Company to the former shareholders of Triton in connection with the Triton Acquisition. As of the date of this AIF, all of these Series A Preferred Shares have been redeemed and cancelled by the Company. See "*Significant Acquisitions – Triton Hydrocarbons Pty Ltd.*"

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares of the Company are traded on the WSE. The following table sets forth information regarding the trading of the Common Shares on the WSE from the month the Common Shares commenced trading on the WSE to the date of this AIF:

	Closing Price ($ per Common Share)		Trading Volume		
	High	Low	Maximum	Minimum	Monthly Average
2011					
March (1-25)	0.66	0.60	8,966,694	546,286	2,177,085
February	0.76	0.62	20,002,351	9,898,757	15,858,917
January	0.58	0.52	8,169,453	366,838	2,162,771
2010					
December	0.55	0.49	9,862,096	308,316	1,424,567
November	0.60	0.55	2,494,308	146,117	663,076
October	0.63	0.55	5,183,891	126,621	1,253,159
September	0.57	0.48	5,175,665	579,396	1,452,926
August	0.60	0.51	3,000,613	186,148	697,476
July	0.60	0.52	2,694,370	123,246	754,730
June	0.68	0.49	13,811,418	298,036	2,560,836
May (25-31)	0.61	0.57	5,331,894	888,159	3,336,181

PRIOR SALES

The following table sets forth information regarding the issuance of Common Shares by the Company during the financial year ended December 31, 2010 and to the date of this AIF:

	Number of Common Shares		Stated Value		Per Share	Date of Issuance
Balance, December 31, 2009	200,491,549	$	84,727,754			
Issued pursuant to initial public offering (Warsaw)	166,394,000		93,052,866	$	0.56	May 25, 2010
Issued upon conversion of KI Debenture – Tranche 1	25,000,000		14,418,676	$	0.57	May 25, 2010
Issued upon conversion of KI Debenture – Tranche 2	11,086,842		5,581,324	$	0.57	July 9, 2010
Exercise of stock options	750,000		240,840	$	0.12	September 1, 2010
Exercise of stock options	600,000		256,897	$	0.16	November 11, 2010
Balance, December 31, 2010	402,103,330	$	192,519,634			
Exercise of stock options	200,000		34,000	$	0.17	January 8, 2011
Balance, March 31, 2011	402,303,330	$	192,553,634			

During the financial year ended December 31, 2010, the Company granted 16,356,000 share purchase options exercisable into 16,356,000 Common Shares, the particulars of which are set out in the following table:

Date of Grant	Number and Type of Securities Issued	Exercise Price ($)
May 25, 2010	15,834,000 options	$0.62
October 8, 2010	522,000 options	$0.62
Total:	**16,356,000 options**	

Note:

(1) Each option entitles the holder thereof to acquire one Common Share, on the terms and conditions set forth in the Company's stock option plan, and expires five years from the date of issuance. For further information, please see "Executive Compensation" in the Company's information circular dated July 28, 2010 relating to the annual meeting of shareholders held on September 7, 2010.

As part of the completion of the Triton Acquisition, the Company issued the TIG Convertible Debenture in the amount of US$10,010,000 to TIG, to replace a convertible note that TIG had held as a creditor of Triton. The TIG Convertible Debenture is convertible to Common Shares at $0.5767 per Common Share. For further information, see "*Interest of Management and Others in Material Transactions – TIG Notes and TIG Convertible Debenture*" and *"Material Contracts – TIG Agreement and TIG Convertible Debenture"*.

DIRECTORS AND OFFICERS

The overall supervision of the management of the Company's business is vested in the Board of Directors and the President and the Chief Executive Officer of the Company to whom the Board of Directors has delegated the day-to-day management of the Company, other than in relation to certain matters specifically reserved to the competence of the board of directors by the ABCA. The President and Chief Executive Officer are supported by the officers in the performance of the day-to-day management of the Company.

Directors and Executive Officers

The following table sets out the name, province or country of residence, position, date of appointment, principal occupation, and principal occupation during the preceding five years for each of the directors and officers of the Company as of the date of this AIF. Each director is elected or appointed to serve until the next annual meeting of shareholders or until a successor is elected or appointed subject to the Articles and By-laws of the Company. The Company has eight executives (the "**Executive Officers**") based in Dubai, Calgary and Warsaw. All of the

Executive Officers are active in the business of the Company on a day-to-day basis. There is no defined term of office for Executive Officers. The employment of any Executive Officer, subject to the terms and conditions of any employment agreements, may be terminated by the Board of Directors at any time.

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
Jan. J. Kulczyk	St. Moritz, Switzerland	Chairman of the Board of Directors	December 10, 2008	Dr. Kulczyk has been President of the Supervisory Board of Kulczyk Investments S.A. since December 2007. He is also the President of the Supervisory Board of (i) Kulczyk Holding S.A., a private investment company (since June 1997); (ii) Autostrada Wielkopolska S.A., a private infrastructure company (since 1992); (iii) Skoda Auto Polska S.A., a private car dealer and importer (since 1994); and (iv) AWSA Holland II BV, a private infrastructure company (since November 2000). In the last five years Dr. Kulczyk has also been President of the Supervisory Board of (i) Autostrada Eksploatacja S.A., a private motorway operating company (from October 2000 to February 2006); (ii) Towarzystwo Ubezpieczen i Reasekuracji WARTA S.A., a public insurance company (from December 1993 to June 2006); (iii) Kompania Piwowarska S.A., a private brewing company (from 1999 to 2009); and (vi) Telekomunikacja Polska S.A., a public telecommunications company (from October 2000 to April 2006).
Timothy M. Elliott	Dubai, United Arab Emirates	President and Chief Executive Officer; Director	President and Chief Executive Officer since February 10, 2006; Director since April 10, 2001	Mr. Elliott has been President and Chief Executive Officer of the Company since February 2006 and a director of the Company since April 2001. Prior thereto, he was a director and member of the management group of Nemmoco Petroleum Corporation, a private international oil and gas company based in Dubai, United Arab Emirates (since January 1998).
Norman W. Holton	Calgary, Alberta, Canada	Vice Chairman of the Board of Directors	Vice Chairman of the Board of Directors since December 10, 2008; Director since July 30, 1993	Mr. Holton has been Vice Chairman of the board of directors of the Company since December 10, 2008. Prior thereto, he was Executive Chairman of the Company (since May 2007) and Chairman and Chief Executive Officer of the Company (from 1995 to February 2006). Mr. Holton was the founder and Chairman of TUSK Energy Corporation, a public Canadian oil and gas company, from November 2004 to December 2006 and was its Chief Executive Officer from November 2005 to December 2006. Prior thereto Mr. Holton was founder and Chairman and Chief Executive Officer of TKE Energy Trust, a public Canadian oil and gas trust, from November 2004 to November 2005 and prior thereto he was the founder, President and Chief Executive Officer of TUSK Energy Inc., also a public Canadian oil and gas company for more than ten years.
Gary R. King [(1)(2)(3)]	Dubai, United Arab Emirates	Director	October 25, 2007	Mr. King has been an independent consultant since March 5, 2009. Prior thereto, he was the Chief Executive Officer of Dubai Natural Resources World, a private investment fund owned by the Government of Dubai (since September 1, 2008). Before this he was Chief Executive Officer of the Dubai Mercantile

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
				Exchange (from December 2005 to August 2008), a Senior Vice President of Macquarie Bank (from July 2005 to December 2005) and Managing Director of Matrix Commodities, a private trading company (from November 2004 to July 2005).
Manoj N. Madnani(2)	Dubai, United Arab Emirates	Director	October 25, 2007	Mr. Madnani has been Managing Director and a Board Member of Kulczyk Investments S.A. (Luxembourg) and related companies since June 2007. Prior to joining the Management Board of Kulczyk Investments S.A. he was Managing Director of The Marab Group, an oil and gas consultancy and investment banking firm based in Kuwait focusing on sovereign energy security and global investments in the energy sector (from July 2005 to May 2007).
Michael A. McVea (1)(2)(3)	Victoria, British Columbia, Canada	Director	February 10, 2006	Mr. McVea has been a retired barrister and solicitor and corporate director since 2004.
Dariusz Mioduski	St. Moritz, Switzerland	Director	December 10, 2008	Mr. Mioduski has been President and Chief Executive Officer of the Management Board of Kulczyk Investments S.A. since December 2007 and President of the Management Board of Kulczyk Holding S.A., a private investment holding company since May 2007. Prior to this he was an executive partner at CMS Cameron McKenna, an international law firm, in Warsaw, responsible for the entire Energy and Infrastructure Projects sector (since November 1997). He is currently (i) Chairman of the Supervisory Board of Polenergia S.A., a private company dealing with energy and gas distribution and trading (since October 2007); (ii) Chairman of the Supervisory Board of PEKAES S.A., a public transport and logistics company (since September 2009) and member of the Supervisory Board of PEKAES (since June 2009); (iii) a member of the Supervisory Board of Autostrada Wielkopolska S.A., an infrastructure company (since July 2007); (iv) a member of the Supervisory Board of Autostrada Eksploatacja S.A. (since July 2007); and (v) member of the board of directors of Aurelian Oil & Gas PLC (since March 2009).
Stephen C. Akerfeldt (1)(3)	Toronto, Ontario, Canada	Director	March 16, 2011	Mr. Akerfeldt has been President and a director of Ritz Plastics Inc., a private company that produces plastic parts primarily for the automotive industry by injection moulding, since 1999. From June 2007 until February 2011, he was Chairman of the Board and a director of Firstgold Corp., a gold exploration company and he was the Chief Executive Officer of Firstgold Corp. From January 2008 to July 2009.
Jock M. Graham	Dubai, United Arab Emirates	Executive Vice President	May 28, 2007	Mr. Graham, a Professional Geologist and a member of the Alberta Association of Professional Engineers, Geologists and Geophysicists, has been Executive Vice President of the Company since February 2006 and

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
				prior to that was a consultant to the Company from March 2005.
Edwin A. Beaman	Calgary, Alberta, Canada	Vice President, Operations & Engineering	October 23, 2007	Mr. Beaman, a Professional Engineer and member of the Alberta Association of Engineers, Geologists and Geophysicists, has been Vice President, Operations and Engineering for the Company since October 2007. Before that he was a consultant to the Company since April 2007 and prior to that, he was Vice President, Production of TUSK Energy Corporation since November, 2004.
Christopher M. Flynn	Dubai, United Arab Emirates	Vice President Business Development & General Counsel	March 16, 2011	Mr. Flynn is admitted as a solicitor of the Supreme Court of England and Wales and the Supreme Court of New South Wales. He is also admitted as a barrister and solicitor of the High Court of Australia. He was first admitted to practice (called) in June 2000. Prior to joining the Company as General Counsel in May 2010, Mr Flynn consulted to the Company in respect of a number of transactions since mid-2009. Previously he worked as a senior member of the oil and gas team in the London office of leading international law firm, Ashurst LLP (where he included the Company as one of his clients), after having started his legal career in the Sydney and Bangkok offices of leading Asia-Pacific firm, Allens Arthur Robinson.
Jakub J. Korczak	Warsaw, Poland	Vice President Investor Relation & Managing Director CEE	May 25, 2010	Mr. Korczak graduated from accounting and financial management at University of Lodz (1997) and from the advanced management program (AMP) of the IESE Business School, Barcelona (2008). He has over 15 years experience in finance and investment banking. Prior to joining KOV Mr. Korczak has been, among others, CFO & board member at Bank Pocztowy (2009-2010), head of strategy and IR officer at BRE Bank (2005-2009) and co-head of EMEA banks research at Unicredit CA-IB (2000-2005).
Trent A. Rehill	Calgary, Alberta, Canada	Vice President, Geosciences	May 25, 2010	Dr. Rehill is a Professional Geologist member of the American Association of Petroleum Geologists (AAPG) and has been certified as a Qualified Reserve Evaluator by the AAPG Division of Professional Affairs. Prior to joining the Company in March 2009 he was a Senior Staff Geologist for the Artumas Group working on assets in Tanzania and Mozambique. From July 2006 to July 2008, he was a Senior Explorationist / Team Leader for Woodside Energy based in Tripoli, Libya and prior to his tenure at Woodside, Dr. Rehill was a Senior Explorationist for Murphy Oil based in Kuala Lumpur, Malaysia where he was in charge of exploring parts of the offshore area of Malaysia to the northeast of Brunei.
Paul H. Rose	Calgary, Alberta, Canada	Chief Financial Officer	April 27, 2007	Mr. Rose is a Chartered Accountant and has served as Chief Financial Officer of the Company since April 2007. Mr. Rose also serves as Chief Financial Officer of Jura pursuant to a shared services agreement between the Company and Jura. Prior to his appointment to Jura

Name	Province / Country of Residence	Position with the Company	Date of Appointment	Principal Occupation(s)
				in January 2007, Mr. Rose was the Vice President, Finance and Chief Financial Officer for Canyon Services Group Inc., a public company listed on the TSX since January 2005.

Notes:

(1) Member of Audit Committee.
(2) Member of Compensation and Corporate Governance Committee.
(3) Member of Reserves Committee.
(4) Held through Kulczyk Investments S.A., of which Dr. Kulczyk is one of the ultimate beneficial owners.

As of the date of this AIF, the directors and executive officers of KOV, as a group, beneficially own, or control or direct, directly or indirectly, an aggregate of 212,651,224 Common Shares, representing approximately 52.9% of the issued and outstanding Common Shares on a non-diluted basis. The information as to Common Shares beneficially owned, or controlled or directed, directly or indirectly, not being within the knowledge of the Company, has been furnished by the respective individuals.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Unless otherwise disclosed in this AIF, no director or executive officer of the Company:

(a) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity

(i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or

(ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he was acting in the capacity of a director, chief executive officer or chief financial officer except:

- On July 22, 2009 a cease trade order was issued by the Ontario Securities Commission against the insiders, management, officers and directors of Firstgold Corp., including Stephen C. Akerfeldt, for failure to file various continuous disclosure materials within the prescribed time frame as required by Ontario securities law. All outstanding continuous disclosure materials were subsequently filed and the cease trade order expired on October 10, 2009.

- In August 2002, Proprietary Industries Inc. ("**Proprietary**") (now Jura Energy Corporation) faced certain accounting and regulatory issues which led to its then board of directors to voluntarily agree to a cease trade order. The Alberta Securities Commission ("**ASC**") launched an investigation of certain transactions that Proprietary's then senior officers had directed Proprietary to enter into between 1998 and 2002. The senior officers were dismissed from their positions in August 2002. Stephen C. Akerfeldt became a director of Proprietary in January 2003 and a settlement agreement was entered into between the ASC and proprietary with respect to matters occurring prior to August 2002. The regulatory issues against Proprietary were resolved and the cease trade orders with respect to the shares of Proprietary were lifted in May 2004; or

(b) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets except:

- In January 2010, Firstgold Corp. filed for protection under Chapter 11 in the United States. Mr. Akerfeldt was at the time of the filing a director of Firstgold Corp.; or

(c) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director or executive officer has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Conflicts of Interest

As of the date of this AIF, KI holds 49.8% of the Company's issued and outstanding Common Shares, and three directors of the Company (Dr. Kulczyk, Mr. Mioduski and Mr. Madnani) hold senior executive positions with KI. KI's business activities are varied, and include investments in resource companies other than KOV; therefore, there is potential for a conflict of interest to arise.

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 37.5% is owned by Timothy Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost sharing basis. For the year ended December 31, 2010, the fees totalled US$523,032 (December 31, 2009: US$343,200). There were no amounts due to Nemmoco in relation to these administrative services at December 31, 2010 or December 31, 2009.

AUDIT COMMITTEE INFORMATION

In response to National Instrument 52-110 *Audit Committees* ("**NI 52-110**"), the Company has established terms of reference for its audit committee to address such items as: (a) the procedure to nominate the external auditor and recommend its compensation; (b) the overview of the external auditor's work; (c) pre-approval of non-audit services; (d) the review of financial statements, management's discussion and analysis and financial sections of other public reports requiring board approval; (e) the procedure to respond to complaints respecting accounting, internal accounting controls or auditing matters and the procedure for confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and (f) the review of the Company's hiring policies towards present or former employees or partners of the Company's present or former external auditor. The terms of reference for the Audit Committee are attached to this AIF as Appendix "F".

Composition of the Audit Committee

The Audit Committee is comprised of Michael A. McVea, Gary R. King and Stephen C. Akerfeldt. Mr. McVea is the chairman of the Audit Committee. Each of the members is "financially literate," as that term is defined in section 1.5 of NI 52-110 and each of the members are independent directors, as "independent" is defined in NI 52-110.

Relevant Education and Experience

Michael A. McVea

Mr. McVea has been a retired barrister and solicitor since 2004. Prior to that, he was Senior Partner of McVea, Shook, Wickham & Bishop, a general practice law firm from September 1981 to December 2002 and Associate Counsel with that firm from January 2003 to June 2004. Mr. McVea practiced mainly in the areas of business and corporate commercial law. He graduated from University of British Columbia, Canada, with a Bachelor of Laws degree in 1974. Mr. McVea was a director of TKE Energy Trust from November 2004 to November 2005. Mr. McVea is also a director of Loon Energy Corporation and a director and shareholder of McVea Investment Corp., a private investment company. In these roles, Mr. McVea has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Gary R. King

Mr. King has been an independent consultant since March 5, 2009. Prior thereto, he was the Chief Executive Officer of Dubai Natural Resources World, a private investment fund owned by the Government of Dubai exploring new long-term investment avenues across the entire natural resources value chain including oil and gas, power, alternative energy, mining and agriculture, primarily in the developing world since September 1, 2008. Prior thereto, he was Chief Executive Officer of the Dubai Mercantile Exchange from December 2005 to August 2008, a Senior Vice President of Macquarie Bank from July 2005 to December 2005 and Managing Director of Matrix Commodities, a private trading company, from November 2004 to July 2005. Mr. King was Regional Head of Standard Bank London based in Dubai, United Arab Emirates from March 2001 to August 2004. Prior thereto he was employed by Emirates National Oil Company, lastly as Advisor, Group CEO Office from July 2002 to August 2004 and firstly as General Manager, Risk Management from January 1999 to March 2001. Prior thereto, Mr. King's experience included employment with Dragon Oil PLC, an international oil and gas exploration and production company, TransCanada International Petroleum (Asia Pacific PTE LTD), an international oil and gas exploration and production company, Morgan Stanley and Neste Oy, the national oil and energy company of Finland. Mr. King graduated from Imperial College, Royal School of Mines, London University, United Kingdom with a Masters Degree in Petroleum Exploration Geology in 1983. In addition to serving on the board of directors of the Company is a director of Parker Drilling Company, a public corporation which trades on the New York Stock Exchange. In these roles, Mr. King has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Stephen C. Akerfeldt

Mr. Akerfeldt has been President and a director of Ritz Plastics Inc., a private company that produces plastic parts primarily for the automotive industry by injection moulding, since 1999. From 2007 until February 2011, he was Chairman of the Board and a director of Firstgold Corp., a gold exploration company and he was the Chief Executive Officer of Firstgold Corp. from January 2008 to July 2009. In 1990, Mr. Akerfeldt founded Grayker Corporation, a private company which owned a large chain of dry cleaning stores, and he operated it with a partner until 2003 when it was sold. Prior thereto he served as Vice Chairman and Chief Financial Officer of Magna International Inc. from 1987 to 1990. Mr. Akerfeldt joined Coopers & Lybrand (now Price Waterhouse Coopers) in 1965 and worked with them until 1987. He was designated as a Chartered Accountant in 1969 and was made a partner in 1974. Mr. Akerfeldt graduated from the University of Waterloo, Waterloo, Ontario, Canada in 1966. Mr. Akerfeldt is currently a director of Jura Energy Corporation, a public corporation which trades on the TSX. In these roles, Mr. Akerfeldt has acquired experience and exposure to accounting and financial reporting issues, as well as capital markets procedures, policies and rules.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company on the exemption in section 2.4 (*De Minimis Non-audit Services*), section 3.3(2) (*Controlled Companies*), section 3.4 (*Events Outside Control of Member*), section 3.5 (*Death, Disability or Resignation of Audit Committee Member*), section 3.6 (*Temporary Exemptions for Limited and Exceptional Circumstances*), or section 3.8 (*Acquisition of Financial Literacy*) or an exemption from this instrument in whole or in part, granted under Part 8 (*Exemptions)*of NI 52-110.

The Company relied on the exemption contained in section 3.2(2) of NI 52-110 (*Initial Public Offerings*) for the period of time during which Mr. Smith was a director. This exemption allows the Company to have one non-independent director on the Audit Committee for a period of up to one year after the date of receipt for a prospectus to qualify the distribution of securities has been filed.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the board of directors.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence**.**

External Auditor Service Fees (By Category)

Fiscal Year Ended December 31	**2010**	**2009**
Audit Fees(1)	$408,552	$338,909
Audit-Related Fees(2)	$115,270	$129,909
Tax Fees(3)	$447,012	$344,005
All Other Fees(4)	$759,265	-

Notes:

(1) Audit fees include amounts paid for the Company's annual audit examination of consolidated financial statements, together with fees paid to the Company's auditors for their review of interim quarterly financial information.
(2) Audit-related fees include amounts paid for the International Financial Reporting Standards ("**IFRS**") conversion.
(3) Tax fees include amounts paid for income and other tax planning and compliance services.
(4) All other fees include amounts paid for listing on the WSE, accounting matters related to the KUB-Gas acquisition, and general accounting advice on various accounting matters.

RISK FACTORS

Management of the Company believes that the risks described below are the material risks relating to the market environment of the Company and the operations of Company as at the date of this AIF, although the information below does not purport to be an exhaustive list or summary of all of the risks that the Company may encounter. Additional risks and uncertainties not known to the Company as of the date of this AIF, or that the Company deems to be immaterial as at the date of this AIF, may also have an adverse effect on its business. The headings "Risks Relating to the Company's Market Environment", "Risks Relating to the Operations of the Company", and "Risks Related to the Ownership of Common Shares" used in the following presentation of risk factors is for the convenience of the reader only.

Risks Relating to the Operations of the Company

Exploration, Development and Production Risks

The Company is in the oil and natural gas business. The oil and natural gas business involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of the Company, meaning the capability to generate positive net revenues on a sustainable basis, will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves.

In particular, the future value of the Company is dependent on the success of the Company's activities which are principally directed toward the further exploration, appraisal and development of its assets in Ukraine, Syria and Brunei. As of the date of this AIF, no proven or probable reserves have been assigned in connection with the Company's assets in Syria or Brunei given the early stage of development of these assets. The Company presently has the right in Syria and Brunei to explore for and, upon fulfillment of certain conditions, produce oil and natural gas that may be discovered.

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special permits and production special permits. Specific rights and obligations of the Company are contained within the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA. The work carried out by the Company under the production sharing agreements is divided into two stages, one devoted to exploration and the other to production. If it is determined that its oil and gas assets are capable of generating sustained positive cash flow from the production and sale of oil and gas (i.e. once the oil and gas assets are determined to be "commercial"), and following the approval of the development plan by the government or national oil company, the Company will be able to commence production without the need to satisfy other conditions.

Exploration, appraisal, and development of oil and natural gas reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the potential reserves in Ukraine, Syria and Brunei will lead to a discovery of commercial reserves or, if such reserves are discovered, that the Company will be able to realize such reserves as intended. There is no guarantee that the Company will be able to reach an agreement with the government authorities or the national oil company concerning a development plan, which is a prerequisite for the commencement of production.

Not all properties that are explored by the Company may ultimately be developed into new reserves. If at any stage the Company is precluded from pursuing its existing exploration or development activities in Brunei and Syria or the further development of the KUB-Gas assets in Ukraine, or such programs are otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares, is likely to be materially adversely affected. The Company's future oil and natural gas reserves and the ongoing production of oil and natural gas therefrom, and therefore its ability to generate cash flows and earnings, are highly dependent upon the Company continually developing existing reserves of oil and natural gas or acquiring new oil and natural gas reserves. Without the continual addition of new reserves of oil and natural gas, any existing reserves the Company may have at any particular time, as well as the quantity of oil and natural gas produced from such reserves will decline over time as the existing reserves are depleted as a result of production activities. Any future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects.

There is no assurance that commercial quantities of oil and natural gas will be discovered on the existing oil and gas assets of the Company or acquired in the future by the Company. Future oil and natural gas exploration may involve unprofitable efforts, not only from unsuccessful wells, but from wells that are productive but do not produce sufficient revenues to return a profit after deduction of expenditures, including the cost of drilling and operating expenses. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage may greatly increase the cost of operations, and field operating conditions may adversely affect the production from productive wells. These conditions include delays in obtaining governmental approvals or consent, restrictions on production from particular wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

The Company's assets in Ukraine include producing gas properties which the Company is currently operating. Oil and natural gas production operations are subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition, which, in turn, could have a material adverse effect on the trading price of the Common Shares.

Early Stage of Operations

The Company was incorporated in 1987 and has pursued its present business in international oil and gas ventures since 2001. During this period, the Company has been evaluating and acquiring interests in various oil and gas assets, and assets acquired in Syria and Brunei are in the "pre-production" phase, meaning that none of the Company's producing oil and gas assets in these two countries are currently generating any revenues from the production and sale of oil and gas. The Company, through its 70% ownership interest in KUB-Gas, earns net revenues from production activities in Ukraine. The Company currently does not generate significant earnings from operations in Ukraine, and its oil and natural gas projects in Syria and Brunei are in the exploration phases. Consequently, there is a high degree of uncertainty as to the success of the Company's ongoing activities. The Company may remain cash flow negative for some time and there can be no assurance that the Company will achieve or sustain profitability or positive cash flow from its operating activities. Failure to generate positive cash flow could result in the Company needing to raise further equity to sustain operations until such time as the Company is able to realize the value it believes exists in its oil and gas assets, and the issuance of such additional equity could result in dilution to existing Shareholders.

Additional Funding Requirements

The Company's business is at an early stage of development. The Company's properties in Syria and Brunei do not have any established reserves and no revenue has been derived from these prospects as of the date of this AIF. Continuing investment activities by the Company are dependent on its ability to access sufficient capital to complete exploration and development activities and to identify commercial oil and gas reserves.

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves now and in the future. The Company will require additional financing in order to carry out its oil and gas acquisition, exploration and development activities with such financing being either new debt or equity.

Expenditures will be incurred to satisfy contractual obligations arising from work commitments specified in the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA, and additional funding may be required to pay for further capital expenditures on these oil and gas assets if commercial quantities of oil or natural gas are discovered. Further, the Company anticipates incurring capital expenditures to develop the Ukrainian Licenses with such expenditures anticipated to exceed cash flow generated from operations. However, the Company's business is inherently risky, and the outcome of future exploration and development activities cannot be determined at this stage. If exploratory drilling activities in Syria and Brunei are successful and oil or natural gas is discovered, additional expenditures will be required to further define the extent and quality of the newly discovered reserves, and to develop and produce these reserves. The nature and type of work that will be required, and therefore the amount of future expenditure required to conduct this work is very dependent on such factors as the size and characteristics of the newly discovered reserves. These factors are impossible to predict prior to the exploratory drilling being completed. Further, if exploratory drilling results in a discovery that the Company believes to be commercial, then equipment and production facilities will be required to commence production, and to transport the oil or gas to a purchaser. Again, there are many factors that will affect the type and location of production facilities required, and these cannot be predicted in advance of a discovery. Conversely, the drilling of an unsuccessful well may result in the Company deciding that no further work should be performed in a particular area, and that planned spending should be re-allocated to a different project. The Company's business planning therefore allocates funds to planned spending for each of its assets, but recognizes that such allocations may change as further information is acquired as a result of the outcome of ongoing drilling activities.

Failure to obtain financing deemed necessary by the Company on a timely basis could cause the Company to delay the development of assets that may otherwise be capable of producing revenue, forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. There can be no assurance that new debt or equity financing or cash that may be generated by future operations will be available or sufficient to meet the Company's' existing requirements or, if debt or equity financing is available, that it will be on commercial terms that may be acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or potential for future asset growth.

Working Capital Statement

The Company has consolidated working capital of US$4,341,059 as at December 31, 2010 (December 31, 2009: deficiency of US$9,998,867) with an additional US$3,040,992 posted as cash security for a bank guarantee related to Syria (December 31, 2009: US$6,758,241). The Company believes that its cash resources at December 31, 2010 will not be sufficient to finance operations and planned capital spending anticipated for the next twelve months, and therefore additional funding will be required. Additional funding may be obtained by pursuing equity raises or measures including the reduction or deferral of currently planned capital expenditures and/or asset sales will be evaluated and implemented as required.

The failure by the Company to access sufficient additional capital or realize sufficient funds through the deferral of planned expenditures and/or from asset sales in order to fund its operations and planned capital expenditures could have a material adverse effect on the Company's financial condition, results of operations or potential for future asset growth.

Compliance with Foreign Regulatory Regimes

In most countries, including Ukraine, Syria, and Brunei, where the Company presently carries on business, all phases of oil and gas exploration, development and production are regulated by the government either directly or through agencies or national oil companies. Areas of regulation include exploration and production approvals and restrictions, production taxes and royalties, price controls, export controls, expropriation and relinquishment, environmental protection and health and safety. Regulations applicable to the Company derive both from national and local laws and from the production sharing or concession agreements governing the Company's interests in Syria and Brunei.

In the countries in which the Company carries on business, including Ukraine, Syria and Brunei, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, the Company's operations may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges to a greater extent than would be the case if its operations were conducted in countries where mineral resources are not predominantly state-owned. In addition, transfers of ownership interests typically require government approval, which may delay or otherwise impede transfers, and the government may impose obligations on the Company or its subsidiaries to complete minimum work within specified timeframes. In the future, the Company may extend its interests in operations to other countries where similar circumstances may exist.

The Company's exploration and development activities are guided by the nature of the regulatory environment at the time the activities are planned. Subsequent changes in the regulatory environment or in the manner in which regulatory requirements are interpreted or enforced, could have a material adverse affect on the Company's ability to conduct planned exploration and development activities and could render such activities uneconomical.

The Company may require licenses or permits from various governmental authorities to carry out its planned exploration, development and production activities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits when required. Neither can it be assured that the licenses and permits held by the Company will not expire or be revoked if the Company fails to comply with the terms of such licenses or permits, or in the event of any change of relevant laws or their interpretation.

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environmental Protection and the State Geology Service, which are responsible for the award of exploration and development special Licenses and production special Licenses. The issuance of a special permit for exploration (including pilot production) or commercial production of oil and gas is also conditional on: (i) the local authorities consenting to allocate the land plot(s) necessary for the subsoil activities and (ii) the approval of the regional departments of the Ministry of Environmental Protection of Ukraine. The commencement of oil and gas commercial production is also subject to: (i) the State Committee of Ukraine on Industrial Safety, Labour Safety and Mining Control granting a mining allotment to the subsoil user; (ii) approval of the respective subsoil plot for commercial production by the Ministry of Fuel and Energy; and (iii) putting the subsoil plot into production.

The Company's activities within Syria are governed mainly by the Syria Block 9 PSC, the terms of which prevail over all other laws and regulations in Syria's statutory and regulatory regime.

Brunei is a country with a small population and skilled and semi-skilled labourers in the oil and gas industry may not be readily available with the skills and in the numbers required to carry out operations in an effective and timely manner. Undertaking an onshore seismic survey is a labour intensive project and foreign workers may be required. The Department of Labour, exercising their powers to grant work permits to the workers under the *Labour Act (Chapter 93)*, and the Department of Immigration, exercising their powers to grant working visas to the workers conducting the seismic survey under the *Immigration Act (Chapter 17)*, are not equipped to deal with large numbers of applications in short periods of time and this may cause delays. There is also a requirement for security screenings by the Internal Security Department of Brunei and health screenings by the Ministry of Health as part of the local requirements for foreign workers applying to work in Brunei.

The approval for permission to cut down trees in the Brunei forest for the purpose of bridging during seismic acquisition or for the construction of well sites and access roads is under the purview of the Department of Forestry pursuant to the *Forest Act (Chapter 46)* under Brunei law. The importation and storage of explosives, required for the acquisition of seismic data, requires a special permit under the *Arms and Explosives Act (Chapter 38)* of the laws of Brunei. Obtaining approval to import explosives from the required Brunei government authorities may take a considerable amount of time the duration of which cannot be controlled by the Company. The Company's seismic acquisition program on Block L completed in 2009 experienced delays of several months in obtaining necessary government approvals. Further time may be required to secure storage for the explosives after such approval has been obtained due to the lack of designated storage facilities for explosives in Brunei. The only available explosives storage facilities are the Royal Brunei Armed Forces and the Royal Brunei Police Force.

Although the Company believes that it and its subsidiaries have good relations with the current governments in all of the countries in which they hold assets, there can be no assurance that the actions of present or future governments in these countries, or of governments of other countries in which the Company and its subsidiaries may operate in the future, will not materially adversely affect the business or financial condition of the Company, which could adversely affect the trading price of the Common Shares.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company intends to make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully combining functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters.

Although the Company conducts a due diligence review of properties prior to their acquisition that it believes to be consistent with industry practices, such reviews are inherently incomplete. It is not generally feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Company will focus its due diligence efforts on higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal all existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. For acquisitions that may occur in the future, the Company may be required to assume liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis. Such liabilities, should they exist, will typically be known to the Company as a result of its due diligence investigations, and would influence or be an adjustment to the agreed acquisition price. In addition, competition for the acquisition of prospective properties is intense, which may increase the cost of any potential acquisition. To date the Company's exploration and development activities have principally been based in Ukraine, Syria and Brunei, and the Company's limited presence in other regions may limit its ability to identify and complete acquisitions in other geographic areas. There can be no assurance that the Company will be able to successfully realize the anticipated benefits of any acquisition or disposition. The costs involved and time required to realize the anticipated benefits of planned acquisitions may exceed those benefits that may be realized by the Company, and may detract from available resources that could have been committed elsewhere for greater benefit.

Reserve and Resource Estimates

The reserve and resource estimates in respect of the Company's assets and the areas in which such assets are located contained in this AIF are estimates and no assurance can be given that the indicated levels of recovery will be realized. Ultimate recoverable reserves and resources may be significantly less than the estimates. Estimates of reserves and resources depend in large part upon the reliability of available geological and engineering data and the amount of such data available. Properties in the early stage of exploration and appraisal typically have a limited amount of geological and engineering data. Geological and engineering data are used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir.

Reserve and resource estimates may also require revision based on actual production experience that may result from successful development of existing properties, further drilling and several other factors. Such figures have been determined based upon the terms of the various concession agreements and estimates of yield and recovery factors. All such estimates are to some degree uncertain, and classifications of reserve and resource estimates are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable reserves or resources, prepared by different engineers or by the same engineers at different times, may vary.

Although the Company is unable to predict whether its exploration and assessment activities will result in newly discovered reserves, if such activities are successful, the Company will be able to begin producing gas and oil from newly discovered reserves. If the eventual commencement of production activities does occur, the Company's actual production of quantities of oil and gas, revenues and development and operating expenditures with respect to its reserve and resource estimates may vary from such estimates. As well, any estimates of future net revenues contained within reserve or resource reports are dependent on estimates of future oil prices, capital and operating costs. Variances to actual costs may be significant. As such, these estimates are subject to variations due to changes in the economic environment at the time and variances in future budgets and operating plans.

Debt Levels and Additional Capital Requirements

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards and therefore preclude or reduce the Company's ability to obtain new debt for other activities. Depending on future exploration and development plans, the Company may require additional debt financing that may not be available or, if available, may not be available on terms acceptable to the Company. Neither the Company's Articles nor its By-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the ability of the Company to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Security for TIG Convertible Debenture

As part of the Triton Acquisition, KOV issued a US$10,010,000 convertible secured debenture to TIG in exchange for the US$10,010,000 of convertible notes which TIG previously held in Triton. This convertible debenture is secured by a floating charge on all of the Company's present and after-acquired assets and property. Should the Company become unable to pay its debt service charges or otherwise commit an event of default under the debenture terms, TIG may exercise its rights under the debenture to foreclose on or sell the Company's properties. The proceeds of any such sale would be applied to satisfy amounts owed to TIG and other creditors and only the remainder, if any, would be available to the Company. The security granted to TIG could impair the Company's ability to obtain additional financing in the future on a timely basis.

Financial Instruments

The Company, as part of its operations, carries a number of financial instruments including cash and short-term deposits, restricted cash, accounts receivable, marketable securities, accounts payable and accrued liabilities, and convertible debentures. The Company is exposed to the following risks related to its financial assets and liabilities:

Interest rate risk

The Company maintains its cash and cash equivalents in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations thereon. Restricted cash is held in instruments that are redeemable upon meeting certain work commitments. Interest rate risks on the Company's obligations are not considered material because the rates on the convertible debentures are fixed.

Credit risk

The Company's cash and cash equivalents, and restricted cash are held with major financial institutions. Management monitors credit risk by reviewing the credit quality of the financial institutions that hold the cash, cash equivalents and restricted cash.

Accounts receivable as at December 31, 2010 include US$4,158,993 due from MENA with the balance of accounts receivable consisting predominately of receivables from joint venture partners that are anticipated to be applied against future capital expenditures. In addition, the Company has receivables pertaining to the sales of its production in Ukraine, commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits for which credit risk is assessed as being low.

In Ukraine, credit evaluations are performed on customers requiring credit over a certain amount. The Company does not require collateral in respect of financial assets. Management believes that the Company's exposure to the Ukrainian credit risk is not significant, as the gas sold under contract is paid for at the beginning of each month and therefore prior to the gas being delivered to the customer.

Management has no formal credit policy in place for customers outside the Ukraine however the exposure to credit risk is a monitored on an ongoing basis individually for all significant customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Currency risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Australian dollar, Polish Zloty, Ukraine Hryvnia, Syrian Pound and the United States dollar. At December 31, 2010 the Company's primary currency exposure related to the Canadian dollar and the Ukraine Hryvnia. During the year, specifically at the time the proceeds of the initial public offering were received, the Company had significant exposure to fluctuations between the US Dollar and Polish Zloty. As at December 31, 2010 the balance kept in Polish Zloty was not significant.

Economic factors affecting the Company's cash flow required for operations and for investments in accordance with the Company's consolidated statement of cash flows include fluctuations in foreign currency exchange rates. To date, the Company has raised equity funds denominated in Canadian dollars and Polish Zlotys, however exploration expenditures are incurred primarily in United States dollars, and therefore currency exchange rates have an ongoing impact on the Company's cash flows. Fluctuations in foreign currency exchange rates between United States dollars and Canadian dollars and the Polish Zloty resulted in a realized foreign exchange gain of US$122,482 for the year ended December 31, 2010.

At December 31, 2009, the Company's primary currency exposure related to Canadian dollar denominated working capital and cash balances.

	December 31, 2010		December 31, 2009
	CDN	UAH	CDN
Cash and cash equivalents	$ 122,551	$ 562,491	$ 105,340
Accounts receivable	$ 101,094	$ 601,136	$ 147,199
Prepaid expenses and other current assets	$ -	$ 367,629	$ 39,000
Accounts payable and accrued liabilities	$ (744,083)	$ (6,598,032)	$ (137,805)
Net foreign exchange exposure	$ (520,438)	$ (5,066,776)	$ 153,734
Foreign exchange rate to USD	$ 0.9946	$ 7.8605	$ 1.0510

For the years ended December 31, 2010, based on the net foreign exchange exposure at the end of the period, if the Canadian dollar had strengthened or weakened by 10% compared to the U.S. dollar and all other variables were held constant, the after tax net loss would have decreased or increased by approximately $52,000 respectively. Earnings are not impacted by fluctuations in the Ukraine Hryvnia as translation gains and losses are included in other comprehensive income/(loss).

Commodity Price Risk

The Company is exposed to risks due to fluctuations in the price of natural gas in the Ukraine which is impacted by the availability of imported natural gas from Russia and the price set by exporters in Russia.

Commodity Hedging

From time to time the Company may enter into agreements to receive fixed prices on oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company would not benefit from such increases.

As of the date of this AIF, the Company is not a party to any commodity hedging agreements and has not been a party to any such agreements in the past three years.

Fair Value

The carrying value of the Company's financial assets and liabilities approximate their fair values due to their demand nature or because of their relatively short term to maturity. The investments in Jura and Karl Thomson Holdings Ltd. are recorded at fair value based on the quoted market prices for the shares.

Liquidity risk

The Company is exposed to the risk of not being able to meet all the financial obligations as they come due or not being able to liquidate assets at a reasonable price and on a timely basis. The Company has successfully undertaken and plans to continue to undertake various measures to mitigate this risk.

The Company monitors its liquidity position regularly to assess whether it has funds necessary to complete planned exploration commitments and programs on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development without sufficient internally generated cash flow to completely fund the Company's exploration and development projects, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely and /or cost effective basis, or that actual exploration expenditures may exceed those planned. Operating cash flow has historically been, and continues to be negative, and consists of net production revenues and expenses incurred and general and administration costs in the normal course of the Company's ongoing operating activities.

Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required by work programmes to retain concession licences, farm-out arrangements and seeking new equity capital.

Foreign Exchange Risks and Hedging

The nature of the Company's activities results in exposure to fluctuations in foreign currency exchange rates. While the Company does not maintain a defined foreign exchange hedging program, and as of the date of this AIF, the Company is not a party to any foreign exchange hedging agreements and has not been a party to any such agreements in the past three years, it may determine it appropriate from time to time to enter into derivative financial instruments to reduce its exposure. The terms of these derivative instruments may limit the benefit of changes in currency value which are otherwise favourable to the Company and may result in financial or opportunity loss due to counterparty risks associated with these contracts. Utilization of derivate financial instruments may introduce increased volatility into the Company's reported net earnings (losses) and does not eliminate the risk that the Company may sustain losses as a result of foreign currency fluctuations.

Title to properties

It is the practice of the Company in acquiring significant oil and natural gas concessions or interests in oil and natural gas concessions to fully examine the title to the interest under the key agreements pursuant to which the Company has been or will be granted exploration rights. The Company's practice is to utilize local and international legal counsel when deemed necessary to conduct what it believes to be necessary and appropriate levels of due diligence to confirm title to oil and natural gas concessions. Notwithstanding any due diligence which may be undertaken by the Company, there may be title defects which affect licence agreements comprising a portion of the Company's properties, and which may adversely affect the Company. There is no guarantee that an unforeseen defect in title, changes in laws or change in their interpretation or political events will not arise to defeat or impair the claim of the Company to its properties which could result in a material adverse effect on the Company, including a reduction in the revenue to be received by the Company.

U.S. Government Sanctions

The Company, through its wholly-owned subsidiary Loon Latakia, holds an interest in a production sharing contract giving it the right to explore for and produce oil and gas from a block located in Syria. The United States implemented economic sanctions against Syria in May 2004 in accordance with the *Syria Accountability Act*. These sanctions include the prohibition of the export to Syria of products of the United States other than food or medicine. Accordingly, many products and equipment that are commonly used in the international oil and gas industry that are manufactured in the United States may not be available within Syria. Similarly, services commonly provided in the oil and gas industry by firms or companies based in, or with significant activities in the United States may not be available in Syria. The effect of these sanctions in reducing products, equipment and services that would otherwise be available may cause such products, equipment and services that are required by the Company to conduct its operations to be either not available at all, or to be available at a higher cost than would otherwise have been the case in the absence of such sanctions.

Crime and Governmental or Business Corruption

The Company may conduct business in countries or regions which have experienced high levels of governmental and business corruption and other criminal activity. The Company has a Code of Business Conduct and Ethics in place with which directors, officers and employees must comply. Findings against the Company, its directors, officers or employees, or their involvement in corruption or other illegal activity could result in criminal or civil penalties, including substantial monetary fines, against the Company, its directors, officers or employees. Any government investigations or other allegations against the Company, its directors, officers or employees, or finding of involvement in corruption or other illegal activity by such persons, could significantly damage the Company's reputation and its ability to do business, including affecting its rights under the various oil and natural gas concessions or through the loss of key personnel, and could materially adversely affect its financial condition and results of operations. Furthermore, alleged or actual involvement in corrupt practices or other illegal activities by the operators of certain of the Company's oil and natural gas concessions, joint venture partners of the Company or others with whom the Company conducts business, could also significantly damage the Company's reputation and business and materially adversely affect the Company's financial condition and results of operations.

Management of Growth

The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. Capacity constraints resulting from growth may arise from the Company's ability on a timely basis to attract and retain appropriately qualified personnel or to adequately develop existing human resources to manage and operate a larger company. The Company's present internal systems and controls would also require changes to deal with a larger company, and time would be required to design, acquire and implement such systems. The ability of the Company to manage growth effectively will require it to continually assess its operational and financial systems and to implement changes as required and to train and manage its employee base. The Company's inability to deal with this growth may result in its failure to realize the benefits otherwise expected from such growth and could have a material adverse impact on its business, operations and potential for future growth.

Project Completion

The Company's current operations are, and future operations will be, subject to approvals of governmental authorities and, as a result, the Company has limited control over the nature and timing of the grant of such approvals for the exploration, development and operation of oil and natural gas concessions.

The Company's interests in oil and natural gas concessions and other contracts with governments and government bodies to explore and develop the properties are subject to specific requirements and obligations. If the Company fails to satisfy such requirements and obligations and there is a material breach of such contracts, such contracts could, under certain circumstances, be terminated. The termination of any of the Company's contracts granting rights in respect of the properties would have a material adverse effect on the Company, including the Company's financial condition.

Relinquishment Obligations under Applicable Legislation and Key Agreements

Consistent with international practice, the Syria Block 9 PSC, the Brunei Block L PSA, and the Brunei Block M PSA contain certain relinquishment provisions upon entering into subsequent exploration phases and upon the occurrence of certain events. Collectively, this will have the result of reducing the total area available to be explored by the Company for oil and natural gas if not offset in some manner. Depending on the size and location of the area, such relinquishment could have a material adverse effect on the Company's results of operations and prospects. The Company's future oil and natural gas reserves and production, and therefore its future cash flows and earnings, are affected by the ability of the Company to find and develop oil and natural gas reserves on its properties. Furthermore, the Company may be obligated to satisfy certain site restoration and abandonment obligations with respect to the relinquished lands.

Ukraine operates under a regulatory regime under which relinquishment is not relevant and therefore not a concern.

Reliance on Key Management Personnel

The success of the Company will depend in large measure on certain key personnel, which include the Chief Executive Officer, Vice-Chairman of the Board of Directors, Executive Vice President, Vice President, Operations and Engineering, Vice President, Geosciences and the Chief Financial Officer. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. The loss of the services of such key personnel could have a material adverse affect on the Company. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. In assessing the risk of an investment in the Common Shares, investors should recognize that they are relying on the ability, expertise, judgment, discretion, integrity and good faith of management of the Company.

Reliance on Third Party Operators

It is common in the oil and gas industry for companies to form partnerships or joint ventures with other companies through which exploration, development and operating activities for a particular property or concession area are conducted. In such cases, one company is designated by agreement amongst the partnership or joint venture, to manage, or "operate" the partnership or joint venture. The operator is the primary point of contact for the national oil company or the government and is responsible for implementing the field work by entering into agreements with various sub-contractors to provide drilling rigs and other equipment and services necessary for carrying out exploration and development operations. All the companies in the partnership or joint venture proportionately share liability for any possible claims and liabilities which may arise as a result of the operator's activities carried out for the benefit of the partnership or joint venture. The operation of properties in Brunei, in which the Company has interests is provided by other companies which are not affiliated entities of the Company. As a result, the Company may have limited ability to exercise influence over operations of these assets or their associated costs, which could adversely affect the Company's financial performance. The success and timing of the Company's activities on assets operated by others will depend on a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices. To the extent the Company is not designated as the operator of certain of its oil and gas properties, the Company is dependent on the technical ability and financial resources of the other companies who act as operator to comply with the terms of the agreements granting the interests in its properties and for the timing of activities related to such properties.

Shared Trademark and Trade Name

The Company shares the "Kulczyk" trademark and trade name with KI and many of KI's affiliates. KI, the major shareholder of the Company, is an international holding company of Polish origin which takes its name from Dr. Jan Kulczyk, a Polish entrepreneur and international businessman with core holdings in infrastructure and in the automotive and brewing industries. On November 6, 2008, Company and KI entered into a trade name and trade mark license agreement (the "**License Agreement**") under the terms of which, KI granted the Company a limited, non-exclusive, revocable and non-transferable license to use the trade name and trade-mark "Kulczyk" in connection with the Company's business and for domain names used in connection with the business of the Company. Pursuant to the License Agreement, the Company intends to continue identifying itself using names and logos that indicate a relationship with KI. Given that the Company shares a trademark and trade name with KI and many of its affiliates, any adverse development affecting the trademark, trade name or reputation of any of those companies could have a material adverse effect on the business, goodwill or reputation of the Company.

Loon Peru Limited Guarantee

The Company continues to be legally responsible for a parent company guarantee (the "**Loon Guarantee**") issued in August 2007 to the Government of Peru regarding the granting of a license contract to a former subsidiary company, Loon Peru Limited. The Company has no continuing ownership interest, directly or indirectly, in Loon Peru Limited following the implementation of Arrangement, the result of which was the transfer of ownership of the shares of Loon Peru Limited from the Company to a newly formed company, Loon Corp. The Company does not currently hold, either directly or indirectly, any shares in Loon Peru Limited.

Loon Corp has begun the steps required to replace the Loon Guarantee with its own parent company guarantee which requires the formal approval of the Government of Peru. The process to replace the Loon Guarantee with a new guarantee issued by Loon Corp has not been completed as of the date of the AIF. Although Loon Corp and the Company have entered into an indemnification agreement whereby Loon Corp has agreed to indemnify the Company for any liabilities under the Loon Guarantee, there is no assurance that Loon Corp will be able to replace the Loon Guarantee. As long as the Company is holding the Loon Guarantee, it will be liable for the Loon Guarantee.

Uncertainty Regarding Interpretation and Application of Foreign Laws and Regulations

The Company's exploration and development activities are located in countries with different legal systems. Rules, regulations and legal principles may differ both relating to matters of substantive law and in respect of such matters as court procedure and enforcement. All material production and exploration rights and related contracts of the Company are subject to the national or local laws and jurisdiction of the respective countries in which the operations are carried out. This means that the Company's ability to exercise or enforce its rights and obligations may differ between different countries.

Moreover, the jurisdictions in which the Company and its subsidiaries operate may have less developed legal systems than more established economies, which may result in risks such as: (a) effective legal redress in the courts of subject jurisdictions being more difficult to obtain, whether in respect of a breach of law or regulation, or an ownership dispute; (b) a higher degree of discretion on the part of governmental authorities; (c) the lack of judicial or administrative guidance on interpreting applicable rules and regulations, particularly where those rules and regulations are the result of recent legislative changes or have been recently adopted; (d) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (e) relative inexperience of the judiciary and courts in such matters. Enforcement of laws in some of the jurisdictions in which the Company and its subsidiaries operate may depend on and be subject to the interpretation placed upon such laws by the relevant local authority, and such authority may adopt an interpretation of an aspect of local law which differs from the advice that has been given to the Company. There can be no assurance that the Company's contracts, joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of and enforcement of such arrangements in these jurisdictions. Effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, may be more difficult to obtain. In certain jurisdictions, the commitment of local businesses, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain and legislation and regulations may be susceptible to revision or cancellation; legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Ukraine

Since independence, the Ukrainian legal system has been developing to support a market-based economy. The legal system is, however, in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks include, but are not limited to, provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; inconsistencies between and among Ukraine's Constitution, laws, presidential decrees and Ukrainian governmental, ministerial and local orders, decisions, resolutions; and other acts. Also, there is a lack of judicial and administrative guidance on the interpretation of Ukrainian legislation, including the complicated mechanism of exercising constitutional jurisdiction by the Constitutional Court of Ukraine. This is further complicated by the relative inexperience of judges and courts in interpreting Ukrainian legislation in the same or similar cases, corruption within the judiciary and a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions.

Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Ukrainian Parliament. For example, in 2005 and 2004, Ukraine adopted a new civil code, a new commercial code, new civil and administrative procedural codes, a new law on state registration of proprietary rights to immovable property, a new law on international private law, new secured finance laws and a new law on personal income tax. The relatively recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt and may result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation in many cases contemplates implementing regulations, which have not yet been implemented.

Syria

The judicial system in Syria is an amalgam of Ottoman, French, and Islamic laws, with three levels of courts: (a) courts of first instance; (b) courts of appeals; and (c) the constitutional court, which is the highest tribunal. In addition, religious courts handle questions of personal and family law.

Foreign judgments can only be executed in Syria if they relate to civil or to commercial disputes upon the approval of the courts of first instance in the governorate where the judgment is to be executed. If there is no bilateral treaty on mutual recognition with the country concerned, the Syrian court will re-examine the case and scrutinize the foreign court's opinion. If a bilateral treaty exists, the Syrian court will limit its scrutiny to violations of Syrian public policy.

In Syria, neither public nor government institutions can agree to submit to arbitration unless provided for by statute. The state may only agree to arbitrate if it is bound by treaty. International arbitration held in Syria is subject to Syrian law and is generally covered by the same rules governing domestic arbitration. The enforcement of international arbitration awards generally follows the same rules as the enforcement of foreign court decisions.

Brunei

There are effectively two systems of law operating in Brunei: (a) the common law system, which follows English common law and applies to the business of the Company in Brunei; and (b) the Syariah Court system, which has limited, but exclusive jurisdiction to hear and decide on Islamic family law matters involving Muslim residents of Brunei. Under the *Application of Laws Act (Chapter 2)* under the laws of Brunei, the common law of England and the doctrine of equity, together with the statutes of general application in force in England prior to April 25, 1951, are in force in Brunei to the extent Brunei's circumstances permit, subject to native customs and local situations.

The *Arbitration Act of 1944* gives effect to the *1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards*. The Arbitration Association Brunei Darussalam ("**AABD**") is the arbitral institution in Brunei. Part of its objective is to assist in developing and providing advisory and assistance support in the field of arbitration. To ensure that the membership and the panel of international arbitrators are kept to the highest possible standard, there is a wide range of leading international arbitrators, most of whom are non-Brunei nationals. The AABD assists domestic and international investors and parties in resolving commercial disputes and making arrangements for arbitration hearings.

The *Reciprocal Enforcement of Foreign Judgment Act (Chapter 177)* under Brunei law provides for reciprocity arrangements with certain countries on the enforcement of judgments.

In general, whether in Ukraine, Syria, Brunei, or elsewhere, if the Company becomes involved in legal disputes in order to defend or enforce any of its rights or obligations, such disputes or related litigation may be costly and time consuming and the outcome may be highly uncertain. Even if the Company would ultimately prevail, such disputes and litigation may still have a substantially negative effect on the Company and its operations.

The KUB-Gas Acquisition may not meet the Company's expectations or the Company may fail to realize its anticipated benefits

Taking into account the nature of the business activity of KUB-Gas as a natural gas production company, and Ukraine, an emerging market in which KUB-Gas operates, the Company's investment in KUB-Gas may not meet its economic or financial expectations or the Company may not be able to fully realize the anticipated benefits in connection with this acquisition. This may be caused by:

- risks and uncertainties concerning KUB-Gas specifically, such as: (a) possible sanctions connected with the lack of filing with Ukraine's Anti-Monopoly Commission in connection with the 2005 KUB-Gas acquisition by Gastek, (b) potential actions against the KUB-Gas legal titles and its rights to its lands and leases, (c) potential actions against the KUB-Gas legal titles to certain real estate objects and natural gas wells, (d) potential litigation procedures over the KUB-Gas special permits, (e) failure to obtain, maintain or renew necessary licenses and special permits or failure to comply with the terms of its licenses and permits or relevant legislation, (f) short-term nature of natural gas sales contracts with customers, and (g) potential actions against KUB-Gas legal titles, assets and its rights to land or leases arising out of or in connection with compliance with its environmental and hazardous waste obligations;

- resource industry specific risks, such as: (a) Ukraine's regulations concerning price controls at which natural gas and other production is sold, (b) competitive nature of the oil and natural gas industry in Ukraine, and (c) inadequate infrastructure that may affect the transportation of produced natural gas;

- country-related risks or uncertainties relating to Ukraine and arising because it is an emerging market and concerning its potential political or economic instability or uncertainty, as well as the Ukrainian legal, judicial and tax system and its potential instability or uncertainty; or

- commencing any regulatory or administrative actions, instigating any dispute or litigation, lodging a claim, issuing an order or undertaking any measure to:
    - suspend, revoke, cancel or terminate any Ukrainian Licenses;
    - expropriate any special permit, license or any KUB-Gas shares;
    - take measures tantamount to the expropriation of any Ukrainian Licenses or any KUB-Gas shares;
    - require or demand a change in control of KUB-Gas or any party; or
    - terminate, restrict, invalidate or challenge certain of KUB-Gas's real property rights, including challenging the titles to hold the land and to carry out exploration work.

The occurrence of any of the above mentioned factors may have a material adverse effect on the Company's financial condition, results of operations or prospects in Ukraine.

Risk of annulling concessions held by KUB-Gas

Pursuant to Ukrainian law, geological exploration of mineral resources and the production of mineral resources owned by the State Fund of Mineral Deposits is conducted on the basis of licenses issued separately for each kind of these activities. Additionally, Ukrainian law mandates that the utilization of any kind of subsoil natural resources requires a license. Each license granted is accompanied by a license agreement specifying the terms of utilization of the subsoil natural resources. The license agreement sets out the key terms for the geological survey, exploration, drilling and production of mineral resources from the relevant subsoil resources area. The license agreement may additionally impose certain social or environmental commitments on the user of the resources.

KUB-Gas holds licenses for conducting geological survey and further pilot production of natural gas, condensate and oil in the licensed areas. According to these licenses, KUB-Gas must satisfy certain detailed requirements which include, among other things, an obligation to satisfy requirements of the state environmental inspection authorities. One of the requirements is obtaining title certificates to the land plots required for geological survey and pilot production in the licensed areas. A default under any of these requirements may result in voiding a license granted to KUB-Gas. Such an occurrence could have a material adverse effect on activities of KUB-Gas and on the business and financial condition of the Company.

Risk of Default under the Gastek Shareholders Guarantee of Obligations Relating to KUB-Gas

On November 11, 2009, each of the three individual shareholders of Gastek (the "**Guarantors**"), KOV Cyprus and Loon Ukraine entered into a Guarantee Agreement whereby the Guarantors personally unconditionally and irrevocably jointly and severally guarantee the obligations of Gastek under the Sale and Purchase Agreements, the SHA, the Put Option Agreement entered into dated November 13, 2009, and the side letter dated February 25, 2010 entered into with respect to the acquisition of the Ukraine Assets. The effect of the guarantee is that all obligations of Gastek pursuant to the acquisition agreement and in respect of Gastek's ongoing obligation to fund its 30% share of ongoing exploration development and operational activities are personally guaranteed by the Guarantors until November 10, 2011. Should Gastek fail to meet its obligations, and should the Guarantors in turn fail to meet their obligations under the Guarantee Agreement, the Company may be required to fund Gastek's share of obligations which could adversely affect the business and financial condition of the Company.

Risks Relating to the Company's Market Environment

Competition

Oil and gas exploration is intensely competitive in all its phases and involves a high degree of risk. The Company competes with numerous other participants in the search for, and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The ability of the Company to increase reserves of oil and natural gas in the future will depend not only on its ability to explore and develop its present properties, but also on whether it is able to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include the proximity of and access to transportation infrastructure, transport prices and reliability of delivery. The Company makes decisions to acquire and exploit oil and natural gas properties in anticipation of realizing returns from the eventual sale of newly discovered oil and natural gas reserves that exceed the capital expenditures required to exploit and develop such reserves. The Company's inability to successfully compete for the acquisition of new oil and gas assets could materially adversely affect the trading price of the Common Shares.

Industry Trends

The Company's business, results of operations, financial condition and future growth are substantially dependent on prevailing crude oil prices. The price of crude oil is influenced by the world economy and can be substantially influenced by the ability of the Organization of Petroleum Exporting Countries ("**OPEC**") or other major producers of crude oil to adjust supply to world demand. Crude oil prices have also historically been impacted by political events causing disruptions in the supply of oil and by concerns over potential supply disruptions or actual supply disruptions triggered by regional events.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers may generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers, triggering premium costs for their services. The acquisition cost of oil and gas exploration and appraisal projects and producing properties similarly increase during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. During periods of decreased demand, the prices charged by the various service suppliers also tend to decline.

Another trend affecting the international oil and natural gas industry is the impact on capital markets caused by investor uncertainty in the world economy. The competitive nature of the oil and gas industry will cause opportunities for equity financings to be selective. Some companies will have to rely on internally generated funds to conduct their exploration and development programs.

It is impossible to accurately predict future crude oil and natural gas price movements. Any substantial decline in oil and natural gas prices would have a material adverse effect on the Company's revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of the Company's properties, its planned level of spending for exploration and development and its level of reserves. No assurance can be given that commodity prices will be sustained at levels which will enable the Company to operate profitably.

Any substantial decline in crude oil and/or natural gas prices may also require the Company to write down the capitalized costs of certain oil and natural gas properties. Under IFRS, the net capitalized cost of oil and natural gas properties may not exceed a "ceiling limit", which is based, in part, upon estimated future net cash flows from reserves. If the net capitalized costs exceed this limit, the Company must charge the amount of the excess against earnings. As oil and natural gas prices decline, the Company's net capitalized cost may approach or exceed this cost ceiling, resulting in a charge against earnings. While a write down would not directly affect cash flow, the charge to earnings could be viewed unfavourably in the market and thus cause an adverse impact on the trading price of the Common Shares or could limit the Company's ability to borrow funds or comply with covenants contained in future credit agreements or other debt instruments.

International Economic Risk

The economies of emerging market countries, including those of Ukraine, Syria and Brunei may not compare favourably with those of developed countries with respect to such issues as growth of gross national product, reinvestment of capital, inflation, resources and balance of payment position. Such economies may rely heavily on particular industries or foreign capital and may be more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Investments in such markets may also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes. In addition, the governments of certain countries may prohibit or impose substantial restrictions on foreign investing in their capital markets or in certain industries. Any of these actions could severely affect security prices, impair the ability of the Company to transfer the assets or income of the Company, or otherwise adversely affect the operations of the Company. Other risks that may be associated with markets in emerging market countries include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities, difficulties in enforcing favourable legal judgments in foreign courts, and political and social instability.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and may be subject to environmental regulation pursuant to a variety of local laws and regulations in which such business is being conducted. Environmental legislation in the countries in which the Company or its subsidiaries carry on, or presently anticipates that it may carry on business generally provide for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. Such legislation will also usually require that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving globally in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. The Company believes that it is in material compliance with current applicable environmental regulations in the countries in which it carries on business in that it is not aware of, or been notified of any breach of such regulations. However, no assurance can be given that the interpretation or enforcement of environmental laws in the various jurisdictions in which the Company is active will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or potential for future asset growth.

The Company conducts operations in Ukraine. Oil and gas exploration and production companies in Ukraine are subject to a number of environmental and sanitary compliance requirements which are provided under a number of Ukrainian statutes. Primarily, these requirements relate to air pollution, water use and waste and sewage disposal. The Company is not aware of any breaches by KUB-Gas of environmental laws or regulations to which KUB-Gas is subject.

The Syrian government, with a view to protecting its environment and conforming with international environmental standards, introduced *Law No. 50 on the Protection of the Environment* ("**Law No. 50**") in 2002. Law No. 50 establishes the fundamental basis for the protection of the environment in Syria and the relevant legal processes to be followed by every industry that may cause damage to the Syrian environment.

As of the date of this AIF, there are no specific laws in Brunei which safeguard the environment. More specifically, there are currently no designated laws or regulations in Brunei governing oil and gas companies with respect to environmental matters. There are, however, provisions relating to the control of smoke emissions under the *Road Traffic Act (Chapter 68)*, which provides for restrictions on the smoke emissions of licensed motor vehicles in Brunei. Other relevant provisions can be found under the *Open Burning Order* which makes it an offence to openly burn materials or hazardous substances.

The Brunei government has taken active steps to safeguard against the damage that may be caused by oil pollution by amending the *Merchant Shipping Act (Chapter 154).* The *Merchant Shipping (Civil Liability and Compensation for Oil Pollution) Order, 2008* gives effect to the *International Convention on Civil Liability for Oil Pollution Damage of 1992* and to the *International Convention on the Establishment of an International Fund for the Compensation of Oil Pollution Damage of 1992*. The public authority responsible for environmental matters in Brunei is the Department of Parks and Recreation, Ministry of Development.

Weather

Adverse weather conditions can cause delays and cost increases related to the capital spending programs of the Company such as drilling of exploration and development wells, completion of wells, construction of production facilities and pipelines and the acquisition of seismic data. In Ukraine, cold temperatures and heavy snows may cause delays to planned activities. In the Company's area of activity in Syria, sandstorms and both high and low temperatures can make operations more difficult and costly. The rainy season, from September to January, is the principal weather factor in Brunei.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is affected by numerous factors beyond its control. The Company's ability to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Availability of pipeline capacity to new customers (such as the Company) is determined primarily by volume commitments and the duration of those commitments made by the pipeline operator to existing customers. The Company may also be affected by (a) deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, (b) operational problems with such pipelines and facilities as well as, (c) extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Commodity prices may also be impacted by the development of alternative fuel or energy sources.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation of projects.

The Company's profitability and future growth and the carrying value of its oil and gas properties are substantially dependent on prevailing prices of oil and gas. The Company's ability to borrow and to obtain additional capital on attractive terms is also substantially dependent upon oil and gas prices. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Company. These factors include global economic conditions, the actions of OPEC, governmental regulation, political circumstances in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Conflicts, or conversely peaceful developments, arising in areas of the world which produce significant volumes of oil or natural gas, may have a significant impact on the price of oil and natural gas and any individual negative event could result in a material decline in prices and result in a reduction of the Company's net production revenue. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars and the price received by the Company may be affected in a positive or negative manner by fluctuations in the exchange rate of the U.S. dollar against other currencies in which business of the Company is transacted. In recent years, the U.S. dollar has fluctuated in value against a number of the world's currencies, including the Euro, the Polish Zloty and the Ukrainian Hryvnia. Variations in exchange rates have the effect of impacting the stated value of oil and natural gas reserves and/or production revenue. Material changes in the value of the U.S. dollar can have a significant impact on the Company and accordingly any changes in future United States currency exchange rates could impact the future value of the Company's reserves and production revenues as determined by independent evaluators.

To the extent that the Company may engage in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract.

An increase in interest rates could result in a significant increase in the amount the Company would pay to service debt, if any, which could negatively impact the value of the Common Shares.

Availability of Equipment and Services

Oil and natural gas exploration and development activities are dependent on the availability of third party service contractors to provide specialized drilling and other equipment and specialized services related to the drilling, testing, completion and production of oil and natural gas wells in the particular areas where such activities will be conducted. Limited equipment and services availability or access limitations may affect the availability of such equipment and services to the Company and may delay exploration and development activities. In the areas in which the Company operates, there can be a significant demand for drilling rigs and other equipment and services. Failure by the Company to secure necessary equipment and services in a timely manner could adversely affect the Company's business, results of operations or financial condition.

Insurance

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, or gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. All of these risks identified can be covered by various forms of insurance, including "property" insurance for damage to physical assets, "comprehensive general liability" insurance for third party damages including those from injury and loss of life, and "control-of-well" for damages resulting from a blow-out, fire or explosion during the drilling of a well. The Company's practice is to ensure that it has insurance programs in place to cover - partially or entirely - all of these risks. The decision as to the quantum of insurance to obtain will be based on a case-by-case assessment of the cost of the insurance premium versus the risk of damages occurring and the consequent potential financial liability.

Insurance for the Company's assets in Brunei has been placed by the Operators designated under operating agreements and confirmed in writing to the Company. The Operators are the following: AED South East Asia for Brunei Block L, and Tap Energy (Borneo) Pty Ltd for Brunei Block M. The Company operates its assets in Syria, and places insurance as required for the activity which is to be undertaken. Under Ukrainian law companies in the upstream oil and gas industry are required to insure against certain risks, and the Company has confirmed that KUB-Gas does have insurance coverage in place. KUB-Gas has also secured insurance on its property and operations for risks that are commonly insured by the Company in other countries within which it conducts operations. There may however be circumstances where such insurance will not cover or be adequate to cover the consequences of an event or where KUB-Gas may become liable for pollution or other operational hazards against which it either cannot insure or may have elected not to have insured. The Company will obtain insurance in accordance with industry standards and upon consideration of advice provided by professional insurance brokers to address these risks. However such insurance may have limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the financial position of the Company, results of operations or prospects.

Local Economic and Political Risk

The Company's current exploration and development activities are located primarily in Ukraine, Syria and Brunei. Exploration and development activities in such countries may require protracted negotiations with host governments, national oil companies and third parties and may be subject to economic and political considerations such as the risks of war, actions by terrorist or insurgent groups, community disturbances, expropriation, nationalization, renegotiation, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, changing taxation policies or interpretations, adverse changes to laws (whether of general application or otherwise) or the interpretation thereof, foreign exchange restrictions, inflation, changing political conditions, the death or incapacitation of political leaders, local currency devaluation, currency controls, and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Any of these or similar factors could have a material adverse effect on the Company's business, results of operations or financial condition. If a dispute arises in connection with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or foreign arbitration tribunals.

Global Economic Crisis

On a worldwide scale, capital markets have experienced substantial volatility since early 2008. Volatility within global capital markets and continued weakening or delays in the recovery of capital markets may have an adverse effect on the ability of the Company to raise additional capital on a timely basis and on terms that it finds acceptable. In the event that global economic instability persists for an extended period of time, the operations of the Company and the quality of the Shareholder's investment may be adversely affected and such factors may have a negative impact on the value, the holding period and the resale of the securities of the Company.

Risks Relating to Ownership of the Common Shares

Controlling Shareholder is able to exercise significant control over the Affairs of the Company

As of the date of this AIF, 200,358,212 Common Shares, representing approximately 49.80% of the issued and outstanding Common Shares in the capital of the Company are held by KI. Dr. Jan Kulczyk, a director and Chairman of the Board of Directors of the Company, is the President of the Supervisory Board of KI. Two other directors of the Company, being Manoj Madnani and Dariusz Mioduski, are members of the Management Board of KI. The shareholding of KI in the Company allows KI to control the outcome of substantially all of the actions taken by the shareholders of the Company, including the election of directors. As of the date of this AIF, KI has sufficient voting power to, among other things, delay, deter or prevent a change in control of the Company that might otherwise be beneficial to its shareholders and may also discourage acquisition bids for the Company and limit the amount certain investors may be willing to pay for the Common Shares.

Sale of Common Shares by controlling and significant Shareholder(s) could have an adverse effect on the price of the Common Shares

The market price of the Common Shares could decline as a result of sales of a large number of Common Shares in the market or the perception that these sales may occur. These sales, or the possibility that these sales may occur, may make it more difficult for the Company to raise capital through future offerings of Common Shares at a time and at a price that the Company deems appropriate.

As of the date of this AIF, 200,358,212 Common Shares, representing approximately 49.80% of the issued and outstanding Common Shares in the capital of the Company are held by KI. The Company cannot predict whether KI will sell any of the Shares it holds in the public market. Sales by KI of a large number of the Shares in the public market, or the potential for such sales, could decrease the trading price of the Common Shares and could impair the Company's ability to raise capital through future offerings of Common Shares.

Dilution may be experienced due to future financing or acquisition activities

The Company's Articles allow it to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series, for such consideration and on such terms and conditions as shall be established by its Board of Directors, in many cases, without the approval of the Shareholders. In addition, as at the date of this AIF, there were 35,309,333 Common Shares issuable upon the exercise of outstanding Options of the Company at prices ranging from US$0.42 per Common Share to US$0.73 per Common Share. The Company may issue additional Common Shares on the exercise of Options or other securities exercisable for Common Shares. The Company may also issue Common Shares to finance future acquisitions and other projects. The Company cannot predict the size of future issuances of Common Shares or the effect that future issuances and sales of Common Shares will have on the market price of the Common Shares. Issuances of a substantial number of additional Common Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and may experience dilution in earnings per Common Share.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Except as described below, the Company is not and has not been a party to, nor is any of the Company's property the subject of and has not been the subject of a legal proceeding since the beginning of the financial year ending December 31, 2010.

Geocan Energy (Private) Limited

On December 19, 2008, Geocan Energy (Private) Limited ("**Geocan**") filed a claim against the Company, amongst others, in the Court of Queen's Bench of Alberta, Judicial District of Calgary, for:

(a) a declaration that Geocan is entitled to a 2.5% carried interest in respect of certain projects located in Pakistan, including projects other than oil and gas properties such as a power station;

(b) a judgment in the amount of US$750,000 alleged to be due by the Company;

(c) an order in lieu of a claimed 2.5% carried interest, that the defendants to the action, including the Company, purchase the alleged 2.5% interest from Geocan for an amount not reflecting the remaining reserves. The amount of the purchase price sought is as yet unspecified;

(d) such other damages that may be proven at trial, in an as yet unspecified amount; and

(e) interests and costs.

The Company has served a statement of defence and applied for security for costs. The Company was granted an order on March 18, 2010 requiring Geocan to post security for costs on or before May 18, 2010. A term of the order is that in default of Geocan posting security for costs, Geocan's action will be dismissed. Geocan failed to post security for costs by May 18, 2010 as required. The Company's assessment of the legal claim is that it is without merit insofar as it relates to the Company's assets and operations and that the probability of any consequent financial liability to the Company arising from any settlement of the legal claim is very low.

KUB-Gas Licences

The Company has been informed by KUB-Gas that the Ukrainian Ministry of Environmental Protection, as part of a general process affecting many licenses in Ukraine, initiated proceedings to dispositively settle the validity of each of the Makeevskoye, Olgovskoye and Krutogorovskoye licenses. The Company understands that this process arises out of questions regarding certain internal Ministry of Environmental Protection procedures and does not, in any way, reflect any particular concern of the Ministry with respect to each of these licenses. KUB-Gas has informed the Company that such proceedings cannot and will not be initiated in respect of the Vergunskoye special permit.

The Company has received notification from KUB-Gas that the High Administration Court of Ukraine has handed down decisions favourable to KUB-Gas in each of these proceedings.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

General

This section includes a description of the material interest, direct or indirect, of directors or executive officers of KOV, persons or companies that beneficially own, control, or direct more than 10% of the voting securities of the Company, or an associate or affiliate of any of such directors, executive officers, persons or companies, in transactions conducted by the Company within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

KI Private Placements

On July 12, 2007, the Company completed a private placement of 25,000,000 Common Shares at an issue price of US$0.95 (CDN$1.00) per Share to KI, which had a prior ownership interest in the Company and had a representative on the Board of Directors of the Company at the time the Common Shares were issued.

On December 10, 2008, the Company completed a private placement of 48,000,000 Common Shares at an issue price of US$0.20 (CDN$0.25) per Share to KI, which had a prior ownership interest in the Company and had a representative on the Board of Directors of the Company at the time the Common Shares were issued.

KI Debenture

On September 9, 2009, the Company and KI finalized arrangements for KI, the majority shareholder of the Company, to provide KOV with up to US$8 million in funding to enable the Company to meet its financial commitments prior to the closing of the offering of the Common Shares on the WSE in May 2010. In connection with such arrangements, the Company issued an unsecured convertible debenture for a principal amount of up to US$8 million to KI, scheduled to mature on August 31, 2010. Interest under the KI Debenture was payable at a rate of 7.16% per annum, compounded semi-annually. On November 9, 2009, and again on January 10, 2010, the debenture was amended to increase the total principal amount available to US$20 million; all other terms and conditions remain unchanged.

As at March 31, 2010, the Company had drawn US$20 million under the terms of the KI Debenture. On May 25, 2010, the first day the Company's shares traded on the WSE, the parties to the KI Debenture agreed to the conversion of approximately US$14.4 million of principal outstanding under the KI Debenture to 25.0 million shares. On July 8, 2010, the remaining principal outstanding of approximately US$4.6 million was converted to 10,086,842 Common Shares and the interest accrued to the conversion date was paid in cash.

KI Services

During the year ended December 31, 2010, the Company paid a US$450,000 fee to KI for its assistance with the KUB-Gas acquisition. The Company also paid $616,857 to KI as interest on the convertible debenture during the 2010 fiscal year. The Company has agreements for ongoing corporate and advisory services to be provided to the Company by both Kulczyk Holdings S.A. ("**KH**") and KI. During 2010, the Company paid US$210,000 in monthly fees to KI for services provided, and paid US$90,000 in monthly fees to KH for services provided in both cases pursuant to service agreements that expire in June 2011. The Company owed no amounts to either KI or KH at December 31, 2010 or December 31, 2009.

KI Trade Name and Trade-Mark License Agreement

On November 6, 2008, the Company and KI entered into the License Agreement, under the terms of which, KI granted the Company a limited, non-exclusive, revocable and non-transferable license to use the trade name and trade-mark "Kulczyk" in connection with the Company's business and for domain names used in connection with the business of the Company. The license to use the trade name and trade-mark is at no cost to the Company, and will expire upon the termination of the License Agreement. The Company did not, and is not required by the License Agreement to make any payment to KI as part of the trade name and trade mark license agreement. See "*Material Contracts – Contracts Entered into Outside the Ordinary Course of Business – License Agreement*".

TIG Notes and TIG Convertible Debenture

On August 11, 2009, KOV entered into an agreement with TIG pursuant to which KOV agreed to purchase from TIG (directly or through one or more of its affiliates) and TIG agreed to sell to KOV, all of TIG's right, title and interest in and to an aggregate of US$15,015,000 principal amount 7.16% convertible unsecured loan notes of Triton (the "**TIG Notes**"), at a purchase price of US$15,015,000 payable as to US$5,005,000 in cash with the balance payable through the issuance of a US$10,010,000 principal amount 7.16% secured subordinated convertible debenture of KOV.

Prior to the closing of the Triton Acquisition, KI, an affiliate of KOV, assumed KOV's obligation to purchase US$5,005,000 of the TIG Notes in cash pursuant to an assignment and assumption agreement dated September 15, 2009 and acquired on that date $5,005,000 of the TIG Notes. KI immediately converted the TIG Notes into Triton shares at a conversion price of $3.80 per share, resulting in KI acquiring 1,317,105 shares in Triton. Such shares were subsequently tendered by KI to KOV's extended offer to acquire all of the issued and outstanding shares of Triton and KI received as consideration therefor 7,232,224 Common Shares and 1,317,105 Series A Preferred Shares.

On September 15, 2009, financial closing of the Triton Acquisition took place, and the Company issued secured convertible debentures in the aggregate amount of US$10,010,000 which mature on August 12, 2011(the "**TIG Convertible Debenture**") in exchange for the TIG Notes. The TIG Convertible Debenture is secured by a floating charge on all of the Company's present and after-acquired property and bears interest at a rate of 7.16% compounding semi-annually, payable annually. The Company has a pre-emptive right to repay the TIG Convertible Debenture in full upon a proposed transfer by TIG of the TIG Convertible Debenture. The TIG Convertible Debenture is convertible at any time after May 25, 2010 (the date of completion of an offering of the Common Shares pursuant to an equity raise on the WSE) and prior to the maturity date at a conversion price equal to the lesser of US$0.692 per Common Share and the price for which the Common Shares were offered in May 2010 pursuant to the equity raise on the WSE. The conversion price was subsequently fixed at US$0.5767 per Common Share by an amending agreement dated August 16, 2010. In September 2010, the Company paid accrued interest of US$729,545 in cash.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada at its principal office in Calgary, Alberta.

MATERIAL CONTRACTS

The following is a list of material contracts required to be disclosed under National Instrument 51-102 *Continuous Disclosure Obligations*, which were still in effect as of the date hereof, broken down into contracts entered into in the ordinary course of business and contracts entered into outside the ordinary course of business, as well as the reasons for which any given contract is regarded as material by KOV and the information where any given contract is discussed in this AIF. Copies of each of the following material contracts may be found at www.SEDAR.com.

Contracts Entered into in the Ordinary Course of Business

For further information on the following agreements, see *"Principal Oil and Gas Assets – Syria - Material Agreements"*.

- *Syria Productions Sharing Contract (Syria Block 9 PSC)*
- *Consulting Agreement*

For further information on the following agreements, see "*Principal Oil and Gas Assets – Brunei - Material Agreements*".

- *Brunei – Block L*
- *Joint Bidding Agreement*
- *Block L Production Sharing Agreement (Block L PSA)*
- *Block L Operating Agreement*
- *Option Agreement*

- *Settlement Agreement*
- *Guarantee*
- *Joint Bidding Agreement*
- *Block M Production Sharing Agreement (Block M PSA)*
- *Block M Joint Operating Agreement*
- *MENA Farmout Agreement*

Contracts Entered into Outside the Ordinary Course of Business

KUB Gas Acquisition

For further information on the following agreements, see *"Significant Acquisitions – KUB-Gas"*.

- *Shareholders' Agreement*
- *Guarantee*
- *Put Option Deed*

License Agreement

On November 6, 2008, KOV and KI entered into the License Agreement. Under the terms of the License Agreement, KI granted the Company a limited, non-exclusive, revocable and non-transferable license to use the trade name and trade-mark "Kulczyk" (the "**Marks**") in connection with the Company's business and for domain names used in connection with the business of the Company. The license to use the Marks is at no cost to KOV, and will expire upon the termination of the License Agreement.

The License Agreement does not grant KOV any proprietary or other right, title or interest in or to the Marks and all goodwill associated with the Marks belongs to and shall enure to KI. KI may require that KOV put on all business material containing or using the Marks notice that KOV is a user of the Marks under license from KI. KI may require KOV at its own cost to take the necessary steps to protect the Marks against any infringement, imitation, dilution or challenge. KOV will indemnify KI for all claims arising out of KOV's use of the Marks or any breach of the License Agreement by the Company. KOV may grant a sublicense to use the Marks to a subsidiary in limited circumstances.

The License Agreement is regarded as material by KOV as it gives the Company the right to use the name "Kulczyk".

Other Material Agreements Entered into Outside the Ordinary Course of Business

TIG Agreement and TIG Convertible Debenture

Prior to the acquisition of Triton by KOV, Triton had US$15,015,000 of outstanding notes (TIG Notes) held by TIG. Concurrent with the execution of the Triton Pre-Acquisition Agreement, the Company entered into a letter agreement with TIG pursuant to which the Company agreed to purchase from TIG, the TIG Notes. One third of the TIG Notes were acquired by KI for cash and then converted into Triton shares. The remaining two thirds of the TIG Notes were replaced by the TIG Convertible Debenture (US$10,010,000) issued by KOV. For further information on the TIG Convertible Debenture, see "*Interest of Management and Others in Material Transactions*".

KI Debenture

On September 9, 2009, the Company and KI finalized arrangements for KI, the majority shareholder of the Company, to provide KOV with funding to enable the Company to meet its financial commitments prior to the close of the offering of the Common Shares on the WSE in May 2010. In connection with such arrangements, the Company issued the KI Debenture to KI. For further information on the KI Debenture, see "*Interest of Management and Others in Material Transactions – KI Debenture*".

INTERESTS OF EXPERTS

KPMG LLP, Chartered Accountants (the auditors of the Company) prepared an auditors' report on the consolidated balance sheets of the Company as at December 31, 2010, and the consolidated statement of operations and retained earnings and cash flows for the year then ended, which auditor's report relates to the most recently completed fiscal year of the Company. As of March 16, 2011, KPMG LLP, Chartered Accountants have reported that they are independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Alberta.

Information relating to the contingent resources related to the KUB-Gas assets in Ukraine, the proven, probable and possible reserves of the Company in Ukraine, and prospective resources of the Company in Syria Block 9 included in this AIF were evaluated by RPS, as an independent third party qualified reserves evaluators. As of the date hereof, to the knowledge of the Company, the partners, employees and associates of RPS, as a group, own, directly or indirectly, less than 1% of the outstanding Common Shares.

ADDITIONAL INFORMATION

Additional information regarding the Company may be found on SEDAR at www.sedar.com. In particular, additional information, including director's and officer's remuneration and indebtedness, the principal holders of Common Shares and the securities authorized for issuance under equity compensation plans, is contained in the Company's information circular dated July 28, 2010 relating to the annual meeting of shareholders held on September 7, 2010. Additional financial information is provided in the consolidated comparative audited financial statements of the Company and the notes thereto and the management's discussion and analysis for the financial year ended December 31, 2010.

APPENDIX A

KULCZYK OIL VENTURES INC.
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION
(Form 51-101F1)

Part 1 – Date of Statement

This statement of reserves data and other oil and gas information is dated March 29, 2011. The effective date of the information being provided in this statement is December 31, 2010 and the preparation date of such information is February 9, 2011.

Part 2 – Disclosure of Reserves Data

In accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities, the tables contained in this filing are a summary of the oil and natural gas reserves and the value of future net revenue of Kulczyk Oil Ventures Inc. (the "**Company**") as evaluated by RPS Energy ("**RPS**") effective as at December 31, 2010, based on their report dated February 9, 2011 (the "**RPS Ukraine Report**"). RPS is an independent qualified reserves evaluator and auditor.

The RPS Ukraine Report evaluated the reserves of KUB-Gas LLC ("**KUB-Gas**"), a natural gas and natural gas liquids producing company in the Ukraine in which the Company indirectly owns an effective 70% interest. The Company owns a 70% interest in a subsidiary (Loon Ukraine Holdings Limited) which owns 100% of the shares of KUB-Gas. The assets of KUB-Gas evaluated in the RPS Ukraine Report are the only reserves of the Company and the tables below show the reserves and discounted cash flow values for both KUB-Gas's 100% full field interest plus the Company's effective 70% working interest share.

It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Company's reserves estimated by RPS represent the fair market value of those reserves. The recovery and reserve estimates of the Company's natural gas and natural gas liquids reserves provided are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided.

In preparing this report, RPS relied upon certain factual information and data furnished by the Company and KUB-Gas with respect to ownership interests, natural gas and natural gas liquids production, historical costs of operation and development, product prices, agreements relating to current and future operations, sales of production, and other relevant data. The extent and character of all factual information and data supplied were relied upon by RPS in preparing their report and was accepted as represented without independent verification. RPS relied upon representations made by the Company as to the completeness and accuracy of the data provided and that no material changes in the performance of the properties has occurred nor is expected to occur, from that which was projected in this report, between the date that the data was obtained for this evaluation and the date of this report, and that no new data has come to light that may result in a material change to the evaluation of the reserves presented in this report.

The evaluation has been conducted within RPS's understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. However, RPS is not in a position to and did not attest to the property title, financial interest relationships or encumbrances related to the Ukrainian licenses.

The evaluation reflects RPS's informed judgement based on the Canadian Oil and Gas Evaluation Handbook Standards, but is subject to generally recognised uncertainties associated with the interpretation of geological, geophysical and engineering data. The reported hydrocarbon resource volumes are estimates based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional information become available.

The following tables are prepared from information contained in the RPS Ukraine Report as of December 31, 2010. Some of the numbers in the tables may not add due to rounding.

Reserves Data

SUMMARY OF NATURAL GAS AND NATURAL GAS LIQUIDS RESERVES
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010
100% Full Field Interest

Table 2.1-1 – 100%	NATURAL GAS		NATURAL GAS LIQUIDS		BOE EQUIVALENTS[1]	
	Gross	Net	Gross	Net	Gross	Net
	(MMcf)	(MMcf)	(Mbbl)	(Mbbl)	(Mboe)	(Mboe)
RESERVES CATEGORY[2]						
PROVED						
Developed Producing	6,394.2	5,004.0	20.0	7.6	1,085.7	841.6
Developed Non-Producing	8,449.3	6,553.8	56.1	21.4	1,464.3	1,113.7
Undeveloped	25,317.5	19,702.7	269.2	103.9	4,488.8	3,387.7
TOTAL PROVED	**40,161.0**	**31,260.4**	**345.4**	**132.8**	**7,038.8**	**5,343.0**
Probable	21,940.0	16,867.2	174.3	67.2	3,831.0	2,878.4
TOTAL PROVED PLUS PROBABLE	**62,101.0**	**48,127.7**	**519.7**	**200.0**	**10,869.8**	**8,221.4**
POSSIBLE	22,365.0	17,178.7	173.1	66.7	3,900.6	2,929.8
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**84,466.0**	**65,306.4**	**692.8**	**266.8**	**14,770.4**	**11,151.2**

Notes:
(1) See information related to BOE conversion ratio on page 30 of this document.
(2) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

SUMMARY OF NATURAL GAS AND NATURAL GAS LIQUIDS RESERVES
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010
70% KOV Working Interest

Table 2.1-1 – 70%	NATURAL GAS		NATURAL GAS LIQUIDS		BOE EQUIVALENTS[1]	
	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (Mboe)	Net (Mboe)
RESERVES CATEGORY[2]						
PROVED						
Developed Producing	4,475.9	3,502.8	14.0	5.3	760.0	589.1
Developed Non-Producing	5,914.5	4,587.7	39.3	15.0	1,025.1	779.6
Undeveloped	17,722.3	13,791.9	188.4	72.7	3,142.1	2,371.4
TOTAL PROVED	**28,112.7**	**21,882.4**	**241.7**	**93.0**	**4,927.2**	**3,740.1**
Probable	15,358.0	11,807.0	122.0	47.0	2,681.7	2,014.8
TOTAL PROVED PLUS PROBABLE	**43,470.7**	**33,689.4**	**363.7**	**140.0**	**7,608.8**	**5,754.9**
POSSIBLE	15,655.5	12,025.1	121.2	46.7	2,730.5	2,050.9
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**59,126.2**	**45,714.5**	**484.9**	**186.7**	**10,339.3**	**7,805.8**

Notes:
(1) See information related to BOE conversion ratio on page 30 of this document.
(2) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

SUMMARY OF AGGREGATE NET PRESENT VALUES OF FUTURE NET REVENUE
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010
100% Full Field Interest

Table 2.1-2 – 100%	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR)					AFTER INCOME TAXES DISCOUNTED AT (% / YEAR)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/YEAR
RESERVES CATEGORY [3]	0 **MM$**	5 **MM$**	10 **MM$**	15 **MM$**	20 **MM$**	0 **MM$**	5 **MM$**	10 **MM$**	15 **MM$**	20 **MM$**	**($/McfGE)** [4]
PROVED											
Developed Producing	21.0	19.2	17.8	16.5	15.4	18.4	16.8	15.4	14.3	13.4	3.52
Developed Non-Producing	37.3	31.2	26.8	23.5	21.0	30.9	25.6	21.8	19.0	16.9	4.01
Undeveloped	100.6	77.9	61.2	48.5	38.8	81.7	62.3	48.0	37.3	29.1	3.01
TOTAL PROVED	**158.9**	**128.3**	**105.7**	**88.6**	**75.3**	**131.0**	**104.7**	**85.3**	**70.7**	**59.4**	**3.30**
Probable	113.4	86.2	68.6	56.4	47.5	95.3	71.9	56.9	46.5	39.0	3.97
TOTAL PROVED PLUS PROBABLE	**272.3**	**214.5**	**174.3**	**144.9**	**122.8**	**226.4**	**176.7**	**142.2**	**117.2**	**98.4**	**3.53**
POSSIBLE	123.3	90.4	70.5	57.3	47.9	102.5	74.8	58.1	47.1	39.3	4.01
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**395.6**	**304.9**	**244.8**	**202.2**	**170.8**	**328.9**	**251.4**	**200.3**	**164.3**	**137.7**	**3.66**

Notes:
(1) The unit values are based on net reserves.
(2) All values are presented in United States dollars.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(4) See information related to McfGE conversion ratio on page 30 of this document.

SUMMARY OF AGGREGATE NET PRESENT VALUES OF FUTURE NET REVENUE
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010
70% KOV Working Interest

Table 2.1-2 – 70%	BEFORE INCOME TAXES DISCOUNTED AT (% / YEAR)					AFTER INCOME TAXES DISCOUNTED AT (% / YEAR)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/YEAR
RESERVES CATEGORY [3]	0 **MM$**	5 **MM$**	10 **MM$**	15 **MM$**	20 **MM$**	0 **MM$**	5 **MM$**	10 **MM$**	15 **MM$**	20 **MM$**	**($/McfGE)** [4]
PROVED											
Developed Producing	14.7	13.4	12.5	11.6	10.8	12.9	11.8	10.8	10.0	9.4	3.52
Developed Non-Producing	26.1	21.8	18.8	16.5	14.7	21.6	17.9	15.3	13.3	11.8	4.01
Undeveloped	70.4	54.5	42.8	34.0	27.2	57.2	43.6	33.6	26.1	20.4	3.01
TOTAL PROVED	**111.2**	**89.8**	**74.0**	**62.0**	**52.7**	**91.7**	**73.3**	**59.7**	**49.5**	**41.6**	**3.30**
Probable	79.4	60.3	48.0	39.5	33.3	66.7	50.3	39.8	32.6	27.3	3.97
TOTAL PROVED PLUS PROBABLE	**190.6**	**150.2**	**122.0**	**101.4**	**86.0**	**158.5**	**123.7**	**99.5**	**82.0**	**68.9**	**3.53**
POSSIBLE	86.3	63.3	49.4	40.1	33.5	71.8	52.4	40.7	33.0	27.5	4.01
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**276.9**	**213.4**	**171.4**	**141.5**	**119.6**	**230.2**	**176.0**	**140.2**	**115.0**	**96.4**	**3.66**

Notes:

(1) The unit values are based on net reserve volumes.
(2) All values are presented in United States dollars.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(4) See information related to McfGE conversion ratio on page 30 of this document.

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS AT DECEMBER 31, 2010
FORECASTS PRICES AND COSTS
100% Full Field Interest

Table 2.1-3b – 100%	REVENUE	ROYALTIES	OPERATING COSTS	EXPLORATION AND DEVELOPMENT COSTS	ABANDONMENT AND RECLAMATION COSTS	FUTURE NET REVENUE BEFORE INCOME TAXES	INCOME TAXES	FUTURE NET REVENUE AFTER INCOME TAXES
RESERVES CATEGORY (3)	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**
PROVED								
Developed Producing	48.1	10.9	15.8	0.0	0.3	21.0	2.6	18.4
Developed Non-Producing	68.5	16.8	12.2	1.8	0.4	37.3	6.4	30.9
Undeveloped	212.2	53.8	22.3	31.4	4.1	100.6	18.9	81.7
TOTAL PROVED	**328.8**	**81.5**	**50.4**	**33.2**	**4.9**	**158.9**	**27.8**	**131.1**
Probable	188.3	48.2	26.4	0.0	0.3	113.4	18.0	95.3
TOTAL PROVED PLUS PROBABLE	**517.1**	**129.7**	**76.8**	**33.2**	**5.2**	**272.3**	**45.9**	**226.4**
POSSIBLE	192.2	49.2	19.5	0.0	0.2	123.3	20.9	102.5
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**709.4**	**178.9**	**96.4**	**33.2**	**5.3**	**395.6**	**66.8**	**328.9**

Notes:
(1) All values are presented in United States dollars.
(2) Operating costs include taxes other than on income.
(3) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS AT DECEMBER 31, 2010
FORECASTS PRICES AND COSTS
70% KOV Working Interest

Table 2.1-3b – 70%	REVENUE	ROYALTIES	OPERATING COSTS	EXPLORATION AND DEVELOPMENT COSTS	ABANDONMENT AND RECLAMATION COSTS	FUTURE NET REVENUE BEFORE INCOME TAXES	INCOME TAXES	FUTURE NET REVENUE AFTER INCOME TAXES
RESERVES CATEGORY (3)	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**	**MM$**
PROVED								
Developed Producing	33.7	7.6	11.1	0.0	0.2	14.7	1.8	12.9
Developed Non-Producing	48.0	11.8	8.5	1.3	0.3	26.1	4.5	21.6
Undeveloped	148.5	37.7	15.6	22.0	2.9	70.4	13.2	57.2
TOTAL PROVED	**230.2**	**57.1**	**35.3**	**23.2**	**3.4**	**111.2**	**19.5**	**91.8**
Probable	131.8	33.7	18.5	0.0	0.2	79.4	12.6	66.7
TOTAL PROVED PLUS PROBABLE	**362.0**	**90.8**	**53.8**	**23.2**	**3.6**	**190.6**	**32.1**	**158.5**
POSSIBLE	134.5	34.4	13.7	0.0	0.1	86.3	14.6	71.8
TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE	**496.6**	**125.2**	**67.5**	**23.2**	**3.7**	**276.9**	**46.8**	**230.2**

Notes:
1. All values are presented in United States dollars.
2. Operating costs include taxes other than on income.
3. See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.

FUTURE NET REVENUE BY PRODUCTION GROUP
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010

Table 2.1-3c **Reserve Category** (1)	**Production Group**	**Future Net Revenue Before Income Taxes (Discounted at 10%/Year) ($MM)**		**Unit Value ($ / Mcf for Natural Gas) ($ / Bbl for Natural Gas Liquids) ($ / McfGE**[2] **for Total Hydrocarbons)**
		100% Full Field Interest	70% KOV Working Interest	
Total Proved	Light and Medium Oil (including solution gas (natural gas liquids) and other by-products)	2.1	1.5	$15.90
	Natural Gas (including by-products but not solution gas)	103.6	72.5	$3.31
	Total Hydrocarbon	**105.7**	**74.0**	**$3.30**
Total Proved Plus Probable	Light and Medium Oil (including solution gas (natural gas liquids) and other by-products)	4.2	2.9	$20.82
	Natural Gas (including by-products but not solution gas)	170.1	119.1	$3.53
	Total Hydrocarbon	**174.3**	**122.0**	**$3.53**
Total Proved Plus Probable Plus Possible	Light and Medium Oil (including solution gas (natural gas liquids) and other by-products)	6.2	4.3	$23.39
	Natural Gas (including by-products but not solution gas)	238.5	166.9	$3.65
	Total Hydrocarbon	**244.8**	**171.2**	**$3.66**

Notes:
(1) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(2) See information related to McfGE conversion ratio on page 30 of this document.

OIL AND GAS RESERVES AND NET PRESENT VALUES BY PRODUCTION GROUP
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010

Notes:

1. "Gross Reserves" are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company. "Net Reserves" are the Company's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Company's royalty interests in reserves.
2. "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. There is a 90% probability that the actual remaining quantities recovered will exceed the estimated proved reserves.
3. "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
4. "Possible" reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.
5. "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
6. "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
7. "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
8. "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

__Part 3 - Pricing Assumptions__

The following table details the benchmark reference prices for the only region (Ukraine) in which the Company operated as at December 31, 2010, reflected in the reserves data disclosed above under “Part 2 – Disclosure of Reserves Data”. Forecast prices are provided by RPS. The forecast price assumptions assume the continuance of current laws and regulations and take into account inflation with respect to future operating and capital costs. Natural Gas forecast prices are generally based on previous experience in Ukraine and then inflated at 2% per year for each forecast year. Natural Gas liquids (Condensate) forecast prices are equal to 82% of the Real 2010 Brent price based on information provided by the Company and from industry observers.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
AS AT DECEMBER 31, 2010
FORECAST PRICES AND COSTS

Table 3.2-1

Year	Brent	Partnership Condensate (excl. VAT)	Imported Russian Gas at Ukrainian border (excl. VAT)	Partnership Gas (excl. VAT)	US$ Price Inflation Rate	US$ Cost Inflation Rate	Ukranian Hryvnia Inflation Rate	Exchange Rate Hyrvnia
	$/bbl	$/bbl	$/Mcf	$/Mcf	%/Year	%/Year	%/Year	Per $
2011	83.33	56.60	7.51	7.01	2.0%	2.0%	10.2%	7.95
2012	85.29	57.93	7.84	7.15	2.0%	2.0%	9.5%	8.00
2013	86.24	58.58	8.08	7.29	2.0%	2.0%	8.9%	8.00
2014	88.78	61.84	8.48	7.62	2.0%	2.0%	8.2%	8.00
2015	90.45	63.01	8.80	7.77	2.0%	2.0%	7.6%	8.00
2016	92.13	64.18	9.13	7.91	2.0%	2.0%	6.9%	8.00
2017	93.80	65.34	9.46	8.06	2.0%	2.0%	6.3%	8.00
2018	95.48	66.51	9.80	8.20	2.0%	2.0%	5.6%	8.00
2019	97.15	67.68	10.15	8.34	2.0%	2.0%	5.0%	8.00
2020	98.83	68.84	10.50	8.49	2.0%	2.0%	4.3%	8.00
2021	100.50	70.01	10.86	8.63	2.0%	2.0%	3.7%	8.00
2022	102.18	71.18	11.23	8.78	2.0%	2.0%	3.0%	8.00
2023	103.85	72.34	11.60	8.92	2.0%	2.0%	3.0%	8.00
2024	105.53	73.51	11.98	9.06	2.0%	2.0%	3.0%	8.00
2025	107.20	74.68	12.36	9.21	2.0%	2.0%	3.0%	8.00
2026	108.88	75.84	12.75	9.35	2.0%	2.0%	3.0%	8.00
2027	110.55	77.01	13.14	9.50	2.0%	2.0%	3.0%	8.00

2028	112.23	78.18	13.55	9.64	2.0%	2.0%	3.0%	8.00
2029	113.90	79.35	13.95	9.78	2.0%	2.0%	3.0%	8.00
2030	115.58	80.51	14.37	9.93	2.0%	2.0%	3.0%	8.00
2031	117.25	81.68	14.79	10.07	2.0%	2.0%	3.0%	8.00
2032	118.93	82.85	15.21	10.21	2.0%	2.0%	3.0%	8.00
2033	120.60	84.01	15.64	10.36	2.0%	2.0%	3.0%	8.00
2034	122.28	85.18	16.08	10.50	2.0%	2.0%	3.0%	8.00
2035	123.95	86.35	16.52	10.65	2.0%	2.0%	3.0%	8.00

The weighted average price of the natural gas sold by KUB-Gas during the 2010 fiscal year was US$7.12 per Mcf.

Part 4 – Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of the changes in the Company's gross reserves as at December 31, 2010 against such reserves as at December 31, 2009 based on the forecast price and cost assumptions stated on page 11 of this document:

RECONCILIATION OF COMPANY GROSS RESERVES BY PRINCIPAL PRODUCT TYPE BASED ON FORECAST PRICES AND COSTS AS AT DECEMBER 31, 2010
100% Full Field Interest

Table 4.1 – 100%	Natural Gas MMcf			Natural Gas Liquids MBbls			Combined MBOE's[(2)]		
	Proved	Probable	Proved + Probable	Proved	Probable	Proved + Probable	Proved	Probable	Proved + Probable
December 31, 2009	-	-	-	-	-	-	-	-	-
Acquisitions	9,797	7,391	17,188	49	44	93	1,682	1,276	2,957
Extensions & Improved Recovery	31,335	14,549	45,884	303	130	433	5,525	2,555	8,080
Technical Revisions	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(971)	-	(971)	(6)	-	(6)	(168)	-	(168)
December 31, 2010	**40,161**	**21,940**	**62,101**	**345**	**174**	**520**	**7,039**	**3,831**	**10,870**

Notes:

(1) See definitions of “proved”, “probable” and “possible” reserves on page 10 of this document.
(2) See information related to BOE conversion ratio on page 30 of this document.

RECONCILIATION OF COMPANY GROSS
RESERVES BY PRINCIPAL PRODUCT TYPE
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2010
70% KOV Working Interest

Table 4.1 – 70%	**Natural Gas MMcf**			**Natural Gas Liquids MBbls**			**Combined MBOE's[2]**		
	Proved	**Probable**	**Proved + Probable**	**Proved**	**Probable**	**Proved + Probable**	**Proved**	**Probable**	**Proved + Probable**
December 31, 2009	-	-	-	-	-	-	-	-	-
Acquisitions	6,858	5,173	12,032	34	31	65	1,177	893	2,070
Extensions & Improved Recovery	21,954	10,185	32,119	212	91	303	3,868	1,789	5,656
Technical Revisions	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	(680)	-	(680)	(4)	-	(4)	(118)	-	(118)
December 31, 2010	**28,113**	**15,358**	**43,471**	**242**	**122**	**364**	**4,927**	**2,682**	**7,609**

Notes:
(1) See definitions of "proved", "probable" and "possible" reserves on page 10 of this document.
(2) See information related to BOE conversion ratio on page 30 of this document.

Part 5 – Additional Information Relating to Reserves Data

Undeveloped Reserves *(all volumes reported in this section are "net" for the 100% full field interest)*

Proved Undeveloped Reserves

The proved undeveloped net reserves of the Company as at December 31, 2010 were 19.7 Bcf of natural gas and 103.9 Mbbls of natural gas liquids for a total of 3,388 Mboe of proved undeveloped reserves. The Company acquired all of its proved undeveloped reserves in 2010, and therefore has no proved undeveloped reserves attributed to it in any of the financial years prior to 2010.

The Company attributes proved undeveloped reserves on the basis of those reserves expected to be recovered from known accumulations where significant expenditure (eg. when compared to the cost drilling a well) is required to render them capable of production. "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. The Company's plan is to develop its proven undeveloped reserves over the next two years through techniques including stimulation treatments (including fracs, selective acidizing), dual completions, and further drilling.

Probable Undeveloped Reserves

The probable undeveloped net reserves of the Company as at December 31, 2010 were 16.9 Bcf of natural gas and 67.2 Mbbls of natural gas liquids for a total of 2,878 Mboe of probable undeveloped reserves. The Company acquired all of its probable undeveloped reserves in 2010, and therefore has no probable undeveloped reserves attributed to it in any of the financial years prior to 2010.

The Company attributes probable undeveloped reserves on the basis of those reserves expected to be recovered from known accumulations where significant expenditure (eg. when compared to the cost drilling a well) is required to render them capable of production. "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The Company's plan is to develop its probable undeveloped reserves through further drilling, and techniques including stimulation treatments (including fracs, selective acidizing) and dual completions.

The Company presently anticipates that it will commence development of its probable undeveloped reserves within the next two years.

Significant Factors or Uncertainties Affecting Reserves Data

The estimation of reserves requires significant judgment and decisions based on available geological, geophysical, engineering and economic data. These estimates can change substantially as additional information from ongoing development activities and production performance becomes available and as economic and political conditions impact oil and gas prices and costs change. The Company's estimates are based on current production forecasts, prices and economic conditions, including the demand within Ukraine for natural gas and natural gas liquids. All of the Company's reserves are evaluated by RPS, an independent engineering firm.

As circumstances change and additional data becomes available, reserve estimates also change. Based on new information, reserves estimates are reviewed and revised, either upward or downward, as warranted. Although every reasonable effort has been made by the Company to ensure that reserves estimate are accurate, revisions may arise as new information becomes available. As new geological, production and economic data is incorporated into the process of estimating reserves, the accuracy of the reserve estimate improves.

Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks include, but are not limited to: the risks associated with the oil and gas industry, commodity prices and exchange rates; industry related risks that could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans; risks associated with the uncertainty of reserve estimates; health and safety risk; and the uncertainty of estimates and projections of production, costs and expenses. Competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources are additional risks the Company faces in this market. (See the "Risk Factors" section contained within the Company's Annual Information Form (Form 51-102F2) for the year ended December 31, 2010 filed under the Company's SEDAR profile (www.sedar.com). The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward looking statements and accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, and if any of them do, what benefits the Company may derive therefrom. The reader is cautioned not to place undue reliance on this forward looking information.

The Company anticipates that any future exploration and development costs associated with its reserves will be financed through combinations of internally-generated cash flow, debt and equity financing. All of the natural gas and condensate produced by the Company during 2010 was sold by the operator of the property to industrial users in the local Ukraine market with the price received being based on the price set by the Ukrainian government for its gas sales to industrial users. The Company does not have any hedges in place.

Future Development Costs

The following table shows the development costs anticipated in the next five years, which have been deducted in the estimation of the future net revenues of the proved and probable reserves.

Table 5.3	Total Proved Estimated Using Forecast Prices and Costs (Undiscounted) ($MM)		Total Proved Plus Probable Estimated Using Forecast Prices and Costs (Undiscounted) ($MM)	
YEAR	**100% Full Field Interest**	**70% KOV Working Interest**	**100% Full Field Interest**	**70% KOV Working Interest**
2011	22.21	15.55	22.21	15.55
2012	7.57	5.30	7.57	5.30
2013	0.47	0.33	0.47	0.33
2014	0.48	0.34	0.48	0.34
2015	1.94	1.36	1.94	1.36
Total for five years	32.67	22.88	32.67	22.88
Remainder	0.50	0.35	0.50	0.35
Total for all years	**33.17**	**23.23**	**33.17**	**23.23**

The Company's current cash balance, internally-generated cash flow and future debt and equity placements will allow the Company to complete the development costs specified above. It is anticipated that the cost arising from debt that may be placed to fund future development activities will reflect rates for asset based lending prevailing in Ukraine, which are currently in the mid to high teens. The effect of the costs of the expected funding would have minimal impact on the revenues or reserves currently being reported.

Part 6 – Other Oil and Gas Information

Oil and Gas Properties and Wells

The Company has an interest in four (Net 2.8) gas processing facilities located onshore in Ukraine. None of these facilities have any form of relinquishment, surrender, back-in or change in ownership to which they are subject. The Company has an interest in four (net 1.5) wells recently drilled onshore in Brunei; the wells are currently waiting for testing, and are classified as non-producing.

The following table sets forth the number of wells in which the Company held a working interest as at December 31, 2010:

Table 6.1	**OIL**		**NATURAL GAS**	
	Gross	**Net**	**Gross**	**Net**
Ukraine				
Producing	-	-	12	8.4
Non-producing	-	-	6	4.2
Brunei(1)				
Producing	-	-	-	-
Non-producing	-	-	4	1.5
TOTAL	**-**	**-**	**22**	**14.1**

Note 1: No attributed reserves.

Relinquishments

Brunei Block L

In 2006, a wholly-owned subsidiary of the Company (KOV Brunei), and QAF Brunei Sdn. Bhd. ("**QAF**") (collectively, together with assignees, referred to as the "**Contractor**") signed a Production Sharing Agreement ("**Brunei Block L PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**"). The Block L PSA granted QAF and KOV Brunei the right to explore for and produce oil and gas from Block L. In 2008, Nations Petroleum (SE Asia) Limited ("**Nations**") was assigned a 50% working interest in the Block L PSA. On January 25, 2010, AED Oil Limited ("**AED**") acquired Nation's 50% operating interest in Brunei Block L. The Company's ownership interest in the Block L PSA is 40%.

Block L comprises approximately 2,220 square kilometres which includes both onshore and shallow offshore areas of northern Brunei. The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA, August 28, 2006, divided into two phases, Phase 1 and Phase 2.

Under the terms of the Brunei Block L PSA, on the last day of Phase1, the Block L Parties shall either: (a) elect to relinquish 50% of the lands covered by the Brunei Block L PSA (the "**Block L Agreement Area**") and enter into Phase 2; or (b) elect to relinquish all of the Block L Agreement Area. The Block L Parties may seek to retain 50% of the original Block L Agreement Area which they are obliged to relinquish (the "**Retention Area**") if, among other things: (a) the Block L Parties have fully satisfied the Block L PSA Phase 1 Obligations and the Block L PSA Phase 1 Expenditure; and (b) the Block L Parties, within six months of electing to retain the Retention Area, attempt to negotiate a new production sharing agreement with PetroleumBRUNEI with respect to the Block L Parties obligations and activities in the Retention Area.

If the Block L Parties cannot agree upon the terms of a new production sharing agreement within six months of the Block L Parties electing to retain the Retention Area: (a) (i) the Block L Parties will lose their interest in the Retention Area; and (ii) the Block L Parties will be obligated to satisfy certain site restoration and abandonment obligations under the Brunei Block L PSA with respect to the Retention Area; and (b) PetroleumBRUNEI will be free to deal with the Retention Area in any way it sees fit.

On the last day of Phase 2, the Block L Parties shall relinquish all lands in the Block L Agreement Area not involved in or connected to the development of oil and natural gas. Moreover, the Block L Parties may be subject to further relinquishment obligations upon the occurrence of certain events.

In August 2010, the Company and its joint venture partners elected to proceed with the Phase 2 exploration period. The minimum work obligations for Phase 2 include (i) acquire and process not less than 500 kilometre of onshore 2D seismic data and 500 kilometre of offshore 2D seismic data, (ii) acquire and process not less than 150 square kilometres of offshore 3D seismic data and (iii) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Block L joint venture parties are required to spend a minimum of $16 million during Phase 2. The Company intends to seek approval to convert the offshore seismic requirement to an onshore seismic requirement. Phase 2 continues until August 27, 2012.

Brunei Block M

The Company acquired a 36% interest in the Brunei Block M Production Sharing Agreement ("**Block M PSA**") effective September 15, 2009. Brunei Block M covers an onshore area of Brunei approximately 3,011 square kilometres (744,000 acres) and is immediately south of the Company's interest in Block L.

The Block M exploration period is 6 years from the date of the Block M PSA, August 27, 2006, and is divided into Phase 1 and Phase 2 which run concurrently. Under the terms of the Brunei Block M PSA, on the last day of Phase 1, the Block M Parties shall either: (a) elect to relinquish 50% of the lands covered by the Brunei Block M PSA (the "**Block M Agreement Area**") and enter into Phase 2; or (b) elect to relinquish all of the Block M Agreement Area. The Block M Parties may seek to retain 50% of the original Block M Agreement Area which they are obliged to relinquish (the "**Block M Retention Area**") if, among other things: (a) the Block M Parties have fully satisfied the Block M PSA Phase 1 Obligations and the Block

M PSA Phase 1 Expenditure; and (b) the Block M Parties, within six months of electing to retain the Block M Retention Area, attempt to negotiate a new production sharing agreement with PetroleumBRUNEI with respect to the Block M Parties obligations and activities in the Block M Retention Area.

If the Block M Parties cannot agree upon the terms of a new production sharing agreement within six months of the Block M Parties electing to retain the Block M Retention Area: (a) (i) the Block M Parties will lose their interest in the Block M Retention Area; and (ii) the Block M Parties will be obligated to satisfy certain site restoration and abandonment obligations under the Brunei Block M PSA with respect to the Block M Retention Area; and (b) PetroleumBRUNEI will be free to deal with the Block M Retention Area in any way it sees fit. On the last day of Phase 2, the Block M Parties shall relinquish all lands in the Block M Agreement Area not involved in or connected to the development of oil and natural gas. Moreover, the Block M Parties may be subject to further relinquishment obligations upon the occurrence of certain events.

On February 9, 2011, the Company and its partners elected to proceed with Phase 2, which requires a minimum work commitment to be completed by August 27, 2012 of: (i) acquiring and processing not less than 80 kilometres of 2D seismic data; and (ii) drilling at least two wells, each to a minimum depth of 1,150 metres. The work commitments for Block M parties require a minimum expenditure of US$7.325 million during Phase 2. The Company's share of the minimum spend is $2.637 million plus an obligation under a farm-in agreement to fund an additional 4% ($293,000) towards a partner's share of expenditures.

Syria Block 9

Through a wholly-owned subsidiary, Kulczyk Oil holds a 100% participating interest in a Contract for the Exploration, Development, and Production of Petroleum ("**PSC**") between the Government of the Syrian Arab Republic, Syrian Petroleum Company ("**SPC**") and the Company. The Contract became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9, a 10,032 square kilometre block in north-western Syria.

Under the terms of the PSC, the Company has a first phase exploration period of four years during which it has committed to acquire 350 square kilometres of 3D seismic and drill two exploration wells. Phase 2 of the exploration period is three years long and Phase 3 is two years long The Company has the ability to obtain license extensions in phases by committing to performing additional work on an agreed basis.

If the Company elects to enter into Phase 2 it shall relinquish to the Syrian government 25% of the lands covered by the Syria Block 9 PSC (the "**Area**") less the land converted to a development area. If the Company elects to enter into Phase 3 it shall relinquish to the Syrian government 25% of the Area less the land converted to a development area. At the end of the Block 9 Exploration Period, the Company shall relinquish to the Syrian government the remainder of the Area not converted to a development area.

Properties with no Attributed Reserves

Table 6.2	**Location**	**Gross Area**	**Net Area** (KOV Ownership share per Joint Operating Agreement)	**Work Commitments**	**Rights to Expire within One Year**
BRUNEI	Block L	550,000 acres	220,000 acres (40%)	Phase 1 – ended August 27, 2010; work commitments require a minimum spend of $25.0 million. Status: Phase 1 complete and work commitments met.	N/A
				Phase 2 – ending August 27, 2012; work commitments require a minimum spend of $16.0 million. Status: Phase 2 in progress.	No
BRUNEI	Block M	744,000 acres	267,840 acres (36%)	Phase 1 – ended August 27, 2011; work commitments require a minimum spend of $12.525 million. Status: Phase 1 in progress.	Phase 1 completed, and election to proceed to Phase 2 made on February 9, 2011.
				Phase 2 – ending August 27, 2012; work commitments require a minimum spend of $7.325 million. Status: Phase 2 in progress.	
SYRIA	Block 9	2,478,876 acres	1,115,494 acres (45%)	Phase 1 – ended November 2011; work commitments require a minimum spend of $7.5 million. Status: Phase 1 in progress.	No
				Phase 2 – ending November 2014; work commitments require a minimum spend of $7.0 million. Status: Phase 2 not committed to yet.	N/A
				Phase 3 – ending November 2016; work commitments require a minimum spend of $2.5 million. Status: Phase 3 not committed to yet.	N/A

Significant Factors or Uncertainties Relevant to Properties with no Attributed Reserves

The Company's properties for which there are no attributed reserves include Brunei Block L, Brunei Block M and Syria Block 9 – all of which contain exploration and appraisal projects upon which exploration wells have been drilled in 2010 (Brunei), or for which exploration wells are expected to be drilled in succeeding years commencing in 2011. There can be no certainty that the drilling of these wells will result in the discovery of recoverable reserves in commercial quantities.

For the foreseeable future, the Company will be conducting exploration activities such as seismic acquisition programs and exploratory drilling that will require third party services. The market for the provision of such services in Brunei and Syria is relatively limited, with the consequence that these services may be secured at a cost that does not reflect a market where such services are more broadly available, and therefore more competitively priced. This is particularly true for Syria, where the economic sanctions imposed by the United States have reduced the number of international service companies that provide their services within the country.

Forward Contracts

The Company has no forward contracts.

Additional Information Concerning Abandonment and Reclamation Costs

The estimated abandonment and restoration costs used by RPS are based on discussions with the Company's engineering personnel who, in turn, evaluated information provided by Ukraine based field and technical personnel with experience in the four producing fields in Ukraine. The Company expects to incur abandonment and reclamation costs for 25 wells (17.5 net wells), and does not expect to incur abandonment and restoration costs in the next three years. All future abandonment and reclamation costs are deducted in determining Future Net Revenues disclosed in Table 2.1-3b (100% Full Field Interest and 70% KOV Working Interest). All costs have been included in the RPS report.

FUTURE ABANDONMENT AND RECLAMATION COSTS
100% Full Field Interest

Table 6.4 – 100% **Year**	**Total Proved Estimated Using Forecast Prices and Costs[1] (Undiscounted)** ($M)	**Total Proved Estimated Using Forecast Prices and Costs[1] (10% Discounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs[1] (Undiscounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs[1] (10% Discounted)** ($M)
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
Total for three years	-	-	-	-
Remainder	5.0	2.0	5.2	1.8
Total for all years	5.0	2.0	5.2	1.8

Note (1): Costs are net of estimated salvage value.

FUTURE ABANDONMENT AND RECLAMATION COSTS
KOV 70% KOV Working Interest

Table 6.4 – 70% **Year**	**Total Proved Estimated Using Forecast Prices and Costs**(1) **(Undiscounted)** ($M)	**Total Proved Estimated Using Forecast Prices and Costs**(1) **(10% Discounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs**(1) **(Undiscounted)** ($M)	**Total Proved Plus Probable Estimated Using Forecast Prices and Costs**(1) **(10% Discounted)** ($M)
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
Total for three years	-	-	-	-
Remainder	3.5	1.4	3.6	1.3
Total for all years	3.5	1.4	3.6	1.3

Note (1): Costs are net of estimated salvage value.

Tax Horizon

The Company is currently taxable in Ukraine and is expected to continue to be currently taxable thereafter.

Costs Incurred

During the 2010 fiscal year, the Company incurred capital expenditures of $31.6 million on its oil and natural gas properties. The following table reflects the Company's capital expenditures by country and type (in thousands of US$'s):

Table 6.6	**Property Acquisition Costs**		**Exploration Costs**	**Development Costs**
	Proved Properties	Unproved Properties		
Brunei	0.0	0.0	22,130.0	0.0
Syria	0.0	0.0	1,903.6	0.0
Ukraine	0.0	0.0	3,566.1	4,083.1
Total	0.0	0.0	**27,599.7**	**4,083.1**

Exploration and Development Activities

The following table summarizes the Company's drilling results. There was no drilling by the Company, or in which the Company participated, on its assets in Brunei, Ukraine and Syria prior to 2010. The Company expects to test some or all of the wells drilled in Brunei, and anticipates that it will drill additional exploration wells in Brunei and Syria. Further development drilling is anticipated to occur in Ukraine. There were no service wells or stratigraphic test wells drilled.

Table 6.7	**Exploration**		**Development**		**Total**	
	Gross	Net	Gross	Net	Gross	Net
2010						
Ukraine gas/condensate wells	1	0.70	1	0.70	2	1.40
Brunei cased wells	4	1.52	-	-	4	1.52
Dry and abandoned	-	-	-	-	-	-
Total wells	5	2.22	1	0.70	6	2.92
Success rate (%)	100	100	100	100	100	100
Average working interest (%)	44.40	44.40	70.00	70.00	48.92	48.92

Production Estimates

The following table is a summary of the gross (prior to royalties) volume of the Company's estimated production for 2011, which is reflected in the estimate of future net revenue in the RPS Ukraine Report based on forecast prices and costs.

Table 6.8 Estimated 2011 Production

100% Full Field Interest Reserve Category	Conventional Natural Gas (MMcf)	Natural Gas Liquids (bbl)	Oil Equivalent (boe) [1]
Gross proved reserves	**4,965.0**	**37.3**	**864.8**
Significant fields [2]			
- Olgovskoye field	3,346.1	24.0	581.7
- Makeevskoye field	992.6	4.1	169.6
Gross probable reserves	**1,180.7**	**8.7**	**205.5**
Significant fields []			
- Olgovskoye field	1,088.0	8.6	189.9
- Makeevskoye field	38.4	0.1	6.6

Notes:

(1) See information related to BOE conversion ratio on page 30 of this document.
(2) Significant fields include those which account for 20% or more of estimated production for 2011. All of the Company's significant fields are located in Ukraine.

Table 6.8 Estimated 2011 Production			
70% KOV Working Interest **Reserve Category**	**Conventional Natural Gas (MMcf)**	**Natural Gas Liquids (bbl)**	**Oil Equivalent (boe)** [(1)]
Gross proved reserves	**3,475.5**	**26.1**	**605.3**
Significant fields [(2)]			
- Olgovskoye field	2,342.3	16.8	407.2
- Makeevskoye field	694.8	2.9	118.7
Gross probable reserves	**826.5**	**6.1**	**143.8**
Significant fields [(2)]			
- Olgovskoye field	761.6	6.0	132.9
- Makeevskoye field	26.9	0.1	4.6

Notes:
(1) See information related to BOE conversion ratio on page 30 of this document.
(2) Significant fields include those which account for 20% or more of estimated production for 2011. All of the Company's significant fields are located in Ukraine.

Production History

The following tables set forth KOV's average daily production volumes and unit prices received, royalties, operating expenses and netbacks received for the periods indicated**.** All of the information presented relates to the Company's operations in Ukraine.

Table 6.9-1	**2010**			
	Dec 31	**Sept 30**	**Jun 30**	**Mar 31**
Average Daily Production – 100% Full Field Interest				
Gas (Mcf/d)	5,773.63	4,818.44	5,757.78	6,005.19
NGL (bbl/d)	46.37	17.57	25.30	18.97
Combined (boe/d)	1,008.64	820.64	984.93	1,019.83
Average Daily Production – 70% KOV Working Interest share (from June 11, 2010 date of acquisition)				
Gas (Mcf/d)	4,041.54	3,372.91	4,030.45	-
NGL (bbl/d)	32.46	12.30	17.71	-
Combined (boe/d)	706.05	574.45	689.45	-
Average Price Received				
Gas ($/Mcf)	$ 7.66	$ 7.32	$ 6.76	$ 6.74
NGL ($/bbl)	73.25	68.81	68.63	64.27
Combined ($boe)	46.98	44.46	41.28	40.85
Royalties				
Gas ($/Mcf)	(1.12)	(1.11)	(1.11)	(1.26)
NGL ($/bbl)	(0.03)	(0.03)	(0.03)	(0.02)
Combined ($/boe)	(7.88)	(7.19)	(7.15)	(7.94)
Operating Expenses				
Combined ($/boe)	(8.21)	(7.69)	(6.31)	(10.34)
Transportation	0.00	0.00	0.00	0.00
Netback Received				
Combined ($/boe)	$ 30.92	$ 29.56	$ 27.81	$ 22.56

Production Volumes
For the Year ended December 31, 2010

The following table sets forth the Company's 70% working interest share of total production volume together with production volumes for each important field for the Company's most recently completed financial year. These production volumes reflect the Company's 70% working interest share of production volumes for the date from June 11, 2010 - the date the Company acquired its 70% ownership interest in KUB-Gas – until December 31, 2010.

Table 6.9-2b	**Conventional Natural Gas (MMCF)**	**Natural Gas Liquids (Bbls)**	**Oil Equivalent (BOE's) (1)**
Total production volume	790,644	4,964	136,738
Ukraine production volume	790,644	4,964	136,738
Important fields:			
- Olgovskoye (Ukraine)	360,354	3,458	63,517
- Makeevskoye (Ukraine)	125,761	721	21,681

Note (1): See information related to BOE conversion ratio on page 30 of this document.

ABBREVIATIONS AND CONVERSION

OIL AND NATURAL GAS		NATURAL GAS	
Bbl	Barrel	Mscf	Thousand standard cubic feet
Bbls	Barrels	MMscf	Millions standard cubic feet
Mbbls	Thousand barrels	Mscf/d	Thousand standard cubic feet per day
MMbbls	Million barrels	MMscf/d	Million standard cubic feet per day
MSTB	1,000 stock tank barrels	MMBTU	Million British Thermal units
Bbls/d	Barrels per day	Bscf	Billion standard cubic feet
NGLs	Natural gas liquids	GJ	gigajoule
STB	Stock tank barrels of oil		
STB/d	Stock tank barrels of oil per day		

OTHER

BOE	Barrel of oil equivalent on the basis that 1 barrel of oil is equivalent to 6 Mscf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 barrel of oil for 6 Mscf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	Barrel of oil equivalent per day
McfGE	Thousand cubic feet of natural gas equivalent. As with BOE's, the use of McfGE's may be misleading, particularly if used in isolation. An McfGE conversion ratio of 1 Bbl:6Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
M^3	cubic metres

RPS Energy

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Kulczyk Oil Ventures
Suite 1170, 700 4th Avenue SW
Calgary
Alberta T2P 3J4
Canada

Attention: Board of Directors 7 March 2011

Re: Report on Reserves Data
By RPS Energy Limited ('RPS')
Qualified Reserves Evaluators

To the board of directors of Kulczyk Oil Ventures (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook') prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).
3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and cost and calculated using a discount of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2010, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management and board of directors:

Independent Qualified Reserves Evaluator	**Description & Preparation Date of Evaluation Report**	**Location of Reserves**	**Net Present Value of Future Net Revenue (before income taxes, 10% discount rate) – MM$**			
			Audited	Evaluated	Reviewed	Total
RPS Energy	Evaluation of Natural Gas Reserves for the Vergunskoye, Olgovskoye, Makeevskoye and Krutogorovskoye License Interests. 10 February 2011	Onshore Ukraine	-	122.01	-	122.01
Totals			-	122.01	-	122.01

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

RPS Energy, London, U.K., March 7, 2011

EurIng Roy T. Kelly *CEng, FEI*
Managing Director, Consulting, RPS Energy

United Kingdom | Australia | USA | Ireland | Netherlands | Malaysia

Registered in England No. 1465554. Centurion Court, 85 Milton Park, Abingdon, Oxfordshire OX14 4RY, United Kingdom

KULCZYK
OIL VENTURES

APPENDIX C

FORM 51-101 F3
REPORT OF
MANAGEMENT AND DIRECTORS
ON OIL AND GAS DISCLOSURE

This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101")

1. Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form;
2. The report referred to item 3 of section 2.1 of NI 51-101 shall in all material respects be as follows:

Report of Management and Directors on Reserves Data and Other Information

The management of Kulczyk Oil Ventures Inc. (the "**Company**") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, the end of the most recently completed fiscal year, estimated using forecast prices and costs.

The Company commissioned an independent qualified reserves evaluator (RPS Energy) to evaluate the Company's reserves data and has filed the 51-101 F2 letter from RPS Energy together with the Form 51-101 F1 Statement of Reserves Data.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management of the Company. The board of directors has, approved

(a) the content and filing with securities regulatory authorities of Form 51-101 F1 containing information detailing the Company's oil and gas activities;

(b) the content and filing with securities regulatory authorities of Form 51-101 F2 which is the report of the independent qualified reserves evaluator on reserves data; and

(c) the content and filing of this report.

(signed by: Timothy M. Elliott)	*(signed by: Norman W. Holton*
Timothy M. Elliott President & Chief Executive Officer	Norman W. Holton Director & Vice Chairman
(signed by: Stuart B. Smith	*(signed by: Michael A. McVea*
Stuart B. Smith Director & Chair of Reserves Committee	Michael A. McVea Director & Member of Reserves Committee

March 15, 2011

APPENDIX D

AUDIT COMMITTEE

TERMS OF REFERENCE

Adopted by the Board of Directors on December 21, 2006
and amended April 27, 2007 and November 12, 2009

PURPOSE

The Audit Committee (the "**Committee**") of Kulczyk Oil Ventures Inc. (the "**Corporation**") is established to fulfil applicable public company obligations respecting audit committees and to assist the Board of Directors of the Corporation (the "**Board**") in fulfilling its oversight responsibilities with respect to financial reporting, including, but not limited to, the responsibility to:

- oversee the accuracy, completeness and integrity of the Corporation's financial statements and financial reporting process;
- oversee, review and evaluate the audit process and the Corporation's disclosure controls and procedures, internal controls over financial reporting, financial reporting systems, and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Corporation's external auditors;
- oversee the work of the Corporation's financial management, internal auditors and external auditors;
- communicate directly with the Corporation's internal and external auditors, as well as provide an open avenue of communication between the internal auditors, the external auditors, the Board and management of the Corporation;
- develop the Corporation's risk management strategy; and
- any additional duties set out in these terms of reference or otherwise delegated to the Committee by the Board.

COMPOSITION, PROCEDURES AND ORGANIZATION

1. The Committee shall consist of not less than three members of the Board, each of whom must be "independent" (as such term is defined from time to time under the requirements or guidelines for audit committee service under applicable securities laws, including National Instrument 52-110 *Audit Committees* ("**NI 52-110**")) and "financially literate" (as determined

under NI 52-110). The composition of the Committee shall also comply with any other requirements as may be prescribed from time to time by applicable securities regulatory authorities, including those contained in NI 52-110.

2. If a Committee member serves on the audit committee of more than three public corporations, including the Corporation, the Board must determine that such service would not impair the ability of the member to effectively serve on the Committee.

3. The Board, at its organizational meeting held in conjunction with each annual general meeting of shareholders of the Corporation, shall appoint the members of the Committee for the ensuing year. If the Board shall fail to do so, persons who were members of the Committee immediately preceding the most recent annual meeting of shareholders of the Corporation, provided they continue to be directors of the Corporation and remain qualified to serve on the Committee, shall be deemed to be reappointed to the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

CHAIR

4. Unless the Board shall have appointed a chair of the Committee, the members of the Committee each year shall elect a chair (the "**Chair**") from amongst their number.

5. The Chair will provide leadership to the Committee and will lead the Committee in fulfilling the duties set out in its mandate.

6. The Chair's duties will be to:

(a) provide overall leadership to enhance the effectiveness of the Committee;

(b) take all reasonable steps to ensure that the responsibility and duties of the Committee, as outlined in its mandate, are well understood by the Committee members and executed as effectively as possible;

(c) foster ethical and responsible decision making by the Committee and its individual members;

(d) provide effective Committee leadership, overseeing all aspects of the Committee's direction and administration in fulfilling the terms of its mandate;

(e) oversee the structure, composition, membership and activities delegated to the Committee;

(f) ensure that the Committee meets at least four times annually and as many additional times as is necessary to carry out its duties effectively;

(g) establish the agenda for each Committee meeting;

(h) chair all meetings of the Committee; provided, however, that if the Chair is not present at a meeting of the Committee, the Committee members present will choose a Committee member to chair the meeting;

(i) encourage Committee members to ask questions and express viewpoints during meetings;

(j) deal effectively with dissent and work constructively towards arriving at decisions and achieving consensus;

(k) ensure that the Committee meets in separate, regularly scheduled, non-management, "*in camera*" sessions;

(l) ensure that the Committee meets in separate, regularly scheduled, non-management, closed sessions with the internal auditors and the external auditors;

(m) ensure that the Committee meets in separate, non-management, closed sessions with internal personnel or outside advisors, as needed or appropriate;

(n) following each meeting of the Committee, report to the Board on the activities, findings and any recommendations of the Committee;

(o) ensure that Committee materials are available to any director of the Corporation on request;

(p) take all reasonable steps to ensure that Committee members receive written information and are exposed to presentations from management to fulfill the Committee mandate;

(q) have an effective working relationship with members of management;

(r) ensure that a performance evaluation of the Committee and the Chair is conducted, soliciting input from all Committee members, other directors and appropriate members of management;

(s) ensure that resources and expertise are available to the Committee so that it may conduct its work effectively and efficiently;

(t) retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities; and

(u) carry out any other appropriate duties and responsibilities assigned by the Board or delegated by the Committee.

MEETINGS OF THE COMMITTEE

7. The Chair shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation and shall be available to all members of the Board.

8. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.

9. The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors, and to such information respecting the Corporation as it considers to be necessary or advisable in order to perform its duties and responsibilities.

10. Meetings of the Committee shall be conducted as follows:

(a) The Committee shall meet at least four times annually, at such times and at such locations as may be requested by the Chair. The external auditors or any member of the Committee may call a meeting of the Committee at any time.

(b) Notices calling meetings shall be sent to all Committee members, to the Chief Executive Officer, to the Chairman, Vice Chairman and to all other directors.

(c) The following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

Chief Executive Officer
Chief Financial Officer

Other management representatives shall be invited to attend as necessary.

11. The internal auditors, if any, and the external auditors of the Corporation shall have a direct line of communication to the Committee through the Chair. The Committee, through the Chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.

DUTIES AND RESPONSIBILITIES

12. The overall duties and responsibilities of the Committee shall be to:

(a) assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls (including the Corporation's disclosure controls and procedures and internal controls over financial reporting);

(b) oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(c) pre-approve, in accordance with applicable law, all non-audit services to be provided by the external auditors to the Corporation or its subsidiary entities;

(d) review the Corporation's annual and interim consolidated financial statements, the external auditor's report on the annual financial statements the external auditor's review of the interim financial statements, MD&A, annual and interim earnings press releases and information contained therein or derived therefrom before approval by the Board and public disclosure or filing of such information;

(e) establish and maintain a direct line of communication with the Corporation's external auditors and assess their performance;

(f) be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph (d) above, and develop a method and procedure of being able to assess, and assess, on a reasonably frequent basis, the adequacy of those procedures;

(g) establish procedures for:

    (i) the receipt, retention and treatment of (including reasonable attempts to resolve) complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

    (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

(h) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the current external auditors and former external auditors of the Corporation; and

(i) report regularly to the Board on the fulfilment of its duties and responsibilities.

13. The duties and responsibilities of the Committee as they relate to the external auditors shall be to:

(a) recommend to the Board:

    (i) the external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Corporation; and

    (ii) the compensation of the external auditors;

(b) engage the external auditors to review all interim financial statements and review the results of the auditors' review of the interim financial statements and the auditors' review of the related MD&A independent, and without the presence, of management;

(c) review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditors;

(d) review with management and the external auditors any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies;

(e) review the audit plan and scope, extent and schedule of the audit of the external auditors prior to the commencement of the audit;

(f) review, independently of management, with the external auditors, upon completion of their audit:

    (i) results of the audit;

    (ii) contents of their report;

    (iii) scope and quality of the audit work performed;

    (iv) adequacy of the Corporation's financial and auditing personnel;

    (v) co-operation received from the Corporation's personnel during the audit;

    (vi) internal resources used;

    (vii) significant transactions outside of the normal business of the Corporation;

    (viii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;

(ix) non-audit services provided by the external auditors; and

(x) the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditors' preferred treatment, and any other material communications with management; and

(g) review and discuss with the external auditors the Corporation's critical accounting policies and the quality of accounting judgments and estimates made by management;

(h) be involved with any change of the Corporation's external auditors, including the disclosure requirements with respect thereto;

(i) review all other material written communications between the external auditors and management, including the post-audit management letter containing the recommendations of the external auditors, management's response thereto and, subsequently, follow-up identified weaknesses;

(j) at least annually, and before the external auditors issue its report on the annual financial statements, review the qualifications, work product and reputation of the external auditors, and review and confirm the independence of the external auditors through discussions with the auditors on its relationship with the Corporation, including details of all non-audit services provided;

(k) meet with the external auditors independently from management and without management present at least annually to discuss and review specific issues, and as appropriate with respect to any significant matters that the auditors may wish to bring to the Committee for its consideration;

(l) discuss with the external auditors any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditors, and any actions or inactions by management that limited or restricted the scope of their work; and

(m) ensure that the external auditors report directly to the Committee, and ensure that same is provided for under the terms of the external auditors' audit engagement.

14. The duties and responsibilities of the Committee as they relate to the Corporation's internal auditors are to:

(a) monitor the qualifications and performance of the internal auditors and periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;

(b) oversee, review and approve the internal audit plan;

(c) review significant internal audit findings and recommendations, and management's response thereto; and

(d) establish a direct line of communication with the internal auditors.

15. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:

(a) oversee, review and assess the adequacy, effectiveness, quality and integrity of the Corporation's disclosure controls and procedures, internal controls over financial reporting and management information systems through discussions with management and the internal and external auditors;

(b) oversee management's reporting on internal controls and disclosure controls and procedures;

(c) review and assess the appropriateness and effectiveness of the Corporation's policies and business practices that may impact the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls (including disclosure controls and procedures and internal controls over financial reporting), management reporting and risk management;

(d) review compliance under the Corporation's code of business conduct and ethics policy and to periodically review such policy and recommend to the Board changes that the Committee considers appropriate;

(e) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation; and

(f) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.

16. The Committee is also charged with the responsibility to:

(a) review the Corporation's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto;

(b) review and approve the financial sections of, and the disclosure pertaining to the Committee required to be disclosed by applicable law included in:

(i) the annual report to shareholders of the Corporation;

(ii) the annual information form and management information circular of the Corporation, as applicable;

(iii) prospectuses of the Corporation; and

(iv) any other reports requiring approval by the Board,

and report to the Board with respect thereto;

(c) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;

(d) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;

(e) review the minutes of any audit committee meeting of subsidiary companies of the Corporation;

(f) review with management, the external auditors and, if necessary, with legal counsel, any actual or anticipated litigation, claim or other contingency or other events, including tax assessments that could have a material current or future effect on the financial position or operating results of the Corporation and the manner in which such matters have been disclosed in the consolidated financial statements;

(g) review with management and the external auditors significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions;

(h) confirm through discussions with management that Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with;

(i) discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material effect on the Corporation's financial condition, results of operations, liquidity, capital expenditures, capital resources, or revenues and expenses;

(j) oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions;

(k) review and assess the adequacy of the Corporation's risk management policies, including hedging policies, and procedures with respect to the Corporation's principal business risks;

(l) review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the Corporation's risks, and report regularly to the Board;

(m) review the Corporation's insurance program;

(n) review with management the Corporation's relationship with regulators and the timeliness and accuracy of the Corporation's filings with applicable regulatory authorities;

(o) review with management all related party transactions and the development of policies and procedures related to those transactions;

(p) review and assess the adequacy of these terms of reference annually and submit to the Board such amendments as the Committee considers appropriate;

(q) report regularly to the Board on Committee activities, issues and related recommendations; and

(r) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders of the Corporation.

AUTHORITY OF THE COMMITTEE

17. The Committee shall also have the authority to:

(a) engage, without the consent of the Corporation, independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for any independent counsel or other advisors retained/engaged by the Committee; and

(c) communicate directly with the internal and external auditors.