KULCZYK OIL VENTURES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

KULCZYK OIL VENTURES INC.

Consolidated Statements of Financial Position

US$

		December 31, 2010	December 31, 2009	January 1, 2009
Assets				
Current				
Cash and cash equivalents		$ 9 090 222	$ 784 810	$ 9 322 225
Accounts receivable		6 523 618	659 899	289 696
Inventory and other		179 923	-	-
Restricted cash	(Note 7)	2 000 000	-	-
Prepaid expenses		660 383	367 280	165 526
		18 454 146	1 811 989	9 777 447
Deposit on acquisition	(Note 6)	-	1 350 000	-
Restricted cash	(Note 7)	3 040 992	6 758 241	7 500 000
Investments	(Note 8)	606 609	578 649	610 764
Investment in associates	(Note 9)	1 615 869	100 000	-
Other assets	(Note 10)	-	1 699 903	-
Property and equipment	(Note 11)	71 590 326	257 989	224 723
Exploration and evaluation	(Note 12)	102 016 903	72 679 678	3 692 304
		$ 197 324 845	$ 85 236 449	$ 21 805 238
Liabilities				
Current				
Accounts payable and accrued liabilities		$ 4 701 824	$ 4 538 627	$ 1 936 112
Income taxes payable		369 129	-	3 563
Current portion of convertible debentures	(Note 16)	9 042 134	7 272 229	-
		14 113 087	11 810 856	1 939 675
Decommissioning provision	(Note 15)	398 214	16 247	15 372
Convertible debentures	(Note 16)	-	7 471 208	-
Derivative liability on convertible debentures	(Note 16)	-	3 051 989	-
Deferred tax liability	(Note 17)	4 594 496	-	-
		19 105 797	22 350 300	1 955 047
Shareholders' Equity				
Share capital	(Note 19)	192 519 634	84 727 754	32 727 754
Convertible debentures, equity component	(Note 16)	2 160 000	-	-
Contributed surplus		10 655 188	7 292 773	4 060 940
Accumulated other comprehensive income		85 738	-	-
Non-controlling interest		20 493 074	-	-
Deficit		(47 694 586)	(29 134 378)	(16 938 503)
		178 219 048	62 886 149	19 850 191
		$ 197 324 845	$ 85 236 449	$ 21 805 238

Commitments (Note 20)

Going concern (Note 2)

KULCZYK OIL VENTURES INC.

Consolidated Statements of Operations and Comprehensive Loss

US$

		Years ended December 31, 2010	2009
Oil and gas revenue		$ 8 945 512	$ -
Royalty expense		(1 476 485)	-
Oil and gas revenue, net of royalties		7 469 027	-
Operating expenses			
Production expenses		(4 127 127)	-
General and administrative		(9 375 777)	(4 625 604)
Acquisition costs, KUB-Gas	(Note 13)	(1 372 200)	(1 490 235)
Acquisition costs, Triton Hydrocarbons	(Note 14)	(197 828)	(2 526 650)
Stock based compensation	(Note 19)	(3 673 420)	(3 231 833)
Depletion and depreciation	(Note 11)	(2 741 630)	(116 791)
Impairment of exploration and evaluation assets	(Note 12)	-	(178 000)
		(21 487 982)	(12 169 113)
Finance income/(expenses)			
Interest and other income		182 816	37 935
Unrealized gain (loss) on investments	(Note 8)	157 618	(397 269)
Interest expense and accretion	(Note 16)	(4 458 877)	(1 305 964)
Gain on sale of assets	(Note 1)	315 339	-
Mark to market gain on derivative liability	(Note 16)	193 106	1 186 883
Foreign exchange gain/(loss)		(658 839)	451 653
		(4 268 837)	(26 762)
Equity loss of associates	(Note 9)	(225 973)	-
Loss before tax		(18 513 765)	(12 195 875)
Current tax (expense)	(Note 17)	(778 129)	-
Deferred tax reduction	(Note 17)	1 034 871	-
Net loss		(18 257 023)	(12 195 875)
Foreign currency translation gain of foreign operations		122 483	-
Total comprehensive loss		$ (18 134 540)	$ (12 195 875)
Loss attributable to:			
Common shareholders		(18 621 408)	(12 195 875)
Non-controlling interest		364 385	-
Loss for the year		$ (18 257 023)	$ (12 195 875)
Net loss per share attributable to common shareholders - basic and diluted		$ (0,06)	$ (0,08)
Total comprehensive loss attributed to:			
Common shareholders		(18 535 670)	(12 195 875)
Non-controlling interest		401 130	-
Total comprehensive loss for the year		$ (18 134 540)	$ (12 195 875)

KULCZYK OIL VENTURES INC.

Consolidated Statements of Cash Flows

US$

		Years ended December 31, 2010	2009
Net loss		$ (18 257 023)	$ (12 195 875)
Items not involving cash:			
Equity loss of associates	(Note 9)	225 973	-
Depletion and depreciation	(Note 11)	2 741 630	116 791
Impairment	(Note 12)	-	178 000
Accretion on convertible debentures	(Note 16)	2 988 351	972 309
Gain on sale of Slovenia assets	(Note 1)	(315 339)	-
Stock based compensation	(Note 19)	3 673 420	3 231 833
Unrealized gian (loss) on investments	(Note 8)	(157 618)	397 269
Mark to market gain on derivative liability	(Note 16)	(193 106)	(1 186 883)
Deferred income tax (reduction)	(Note 17)	(1 034 871)	-
		(10 328 583)	(8 486 556)
Changes in non-cash working capital		952 936	(1 215 839)
		(9 375 647)	(9 702 395)
Financing			
Issuance of common shares	(Note 19)	93 239 598	-
Initial public offering costs	(Note 19)	(4 838 859)	(1 699 903)
Repurchased IPO shares	(Note 19)	(547 298)	-
Issue of convertible debenture	(Note 16)	12 000 000	8 000 000
Advances by non-controlling interest to KUB-Gas		1 140 000	-
Changes in working capital related to financing activities		(852 852)	-
		100 140 589	6 300 097
Investing			
Property and equipment expenditures		(3 341 605)	(150 057)
Restricted cash		(310 223)	741 759
Deposit on KUB-Gas acquisition		-	(1 350 000)
Acquisition of KUB-Gas	(Note 13)	(42 814 481)	-
Proceeds on sale of Slovenia		126 716	-
Acquisition of Triton Hydrocarbons	(Note 14)	-	2 287 254
Cash injection into Triton Petroleum	(Note 14)	(3 000 000)	-
Exploration and evaluation expenditures		(30 514 918)	(7 262 097)
Changes in working capital related to capital expenditures		(2 608 974)	598 024
		(82 463 485)	(5 135 117)
Effect of exchange rate changes on cash		3 955	-
Change in cash		8 305 412	(8 537 415)
Cash and cash equivalents, beginning of year		784 810	9 322 225
Cash and cash equivalents, end of year		$ 9 090 222	$ 784 810
Supplemental cash flow information			
Interest paid		$ 1 346 402	$ -
Interest received		$ 182 816	$ 37 935
Cash taxes paid		$ 387 358	$ -

KULCZYK OIL VENTURES INC.
Consolidated Statements of Changes in Equity
US$

	Common Shares		Preferred Shares							
	Number of shares	Amount	Number of shares	Amount	Convertible debentures, equity component	Contributed surplus	Cumulative translation adjustment	Non-controlling interest	Deficit	Total
		(Note 19)		(Note 19)	(Note 16)					
Balances, January 1, 2009	125 425 605	$ 32 727 754	-	$ -	$ -	$ 4 060 940	$ -	$ -	$ (16 938 503)	$ 19 850 191
Shares issued for Triton Hydrocarbons Pty.	75 065 944	52 000 000	13 670 723	-	-	-	-	-	-	52 000 000
Stock-based compensation charged to operations	-	-	-	-	-	3 231 833	-	-	-	3 231 833
Loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	(12 195 875)	(12 195 875)
Balances, December 31, 2009	200 491 549	$ 84 727 754	13 670 723	$ -	$ -	$ 7 292 773	$ -	$ -	$ (29 134 378)	$ 62 886 149
Shares issued pursuant to option exercises	1 350 000	497 737	-	-	-	(311 005)	-	-	-	186 732
Shares issued pursuant to initial public offering	166 394 000	93 052 866	-	-	-	-	-	-	-	93 052 866
Share issuance costs	-	(6 538 762)	-	-	-	-	-	-	-	(6 538 762)
Shares repurchased pursuant to stabilization activities	(1 219 061)	(608 498)	-	-	-	-	-	-	61 200	(547 298)
Convertible debentures converted in the year	35 086 842	21 388 537	-	-	-	-	-	-	-	21 388 537
Preferred shares redeemed	-	-	(13 670 723)	-	-	-	-	-	-	-
Reclass convertible debentures to equity	-	-	-	-	2 160 000	-	-	-	-	2 160 000
Stock-based compensation	-	-	-	-	-	3 673 420	-	-	-	3 673 420
Foreign currency translation adjustment on foreign operations	-	-	-	-	-	-	85 738	36 745	-	122 483
Non-controlling interest on initial KUB-Gas acquisition (Note 13)	-	-	-	-	-	-	-	18 951 944	-	18 951 944
Non-controlling interest, additional investment in KUB-Gas	-	-	-	-	-	-	-	1 140 000	-	1 140 000
Loss for the year	-	-	-	-	-	-	-	364 385	(18 621 408)	(18 257 023)
Balances, December 31, 2010	402 103 330	$ 192 519 634	-	$ -	$ 2 160 000	$ 10 655 188	$ 85 738	$ 20 493 074	$ (47 694 586)	$ 178 219 048

Kulczyk Oil Ventures Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Stated in U.S. Dollars)

1. Reporting Entity

Kulczyk Oil Ventures Inc. ("**Kulczyk Oil**" or "the **Company**") is a publicly listed company whose common shares commenced trading on the Warsaw Stock Exchange ("**WSE**") on May 25, 2010.

The consolidated financial statements of the Company include the accounts of Kulczyk Oil Ventures Inc. and its subsidiaries together with its equity investments in certain companies. The Company is principally engaged in the exploration for and development of oil and gas properties in Ukraine, Brunei and Syria and conducts many of its activities jointly with other companies; these financial statements reflect only the Company's proportionate interest in such activities. The following is a summary of the Company's properties:

Ukraine

On June 11, 2010, Kulczyk Oil completed the acquisition of an effective 70% ownership interest in the statutory charter capital of KUB-Gas LLC ("**KUB-Gas**"), a Ukrainian registered company which at the time held a 100% ownership interests in three exploration licenses and one production license, plus processing facilities and various well servicing assets in Ukraine. Included in the acquisition, but separate from the ownership of KUB-Gas shares, is a 70% interest in a 1,000 horsepower drilling rig built in Canada in 2007.

On December 20, 2010, KUB-Gas was awarded another exploration license in Ukraine. The North Makeevskoye exploration license is located adjacent to the KUB-Gas Makeevskoye and Olgovskoye licenses, near the city of Lugansk in eastern Ukraine.

Production license	**Issue date**	**Prolongation date**	**Expiry date**
Vergunskoye field	27 September 2006	-	27 September 2026
Exploration licences			
Makeevskoye field	18 May 2001	11 August 2009	11 August 2014
Krutogorovskoye field	16 July 2004	11 August 2009	11 August 2014
Olgovskoye field	31 May 2006	11 August 2009	11 August 2014
North Makeevskoye field	29 December 2010	-	29 December 2015

Under the exploration licence terms, KUB-Gas may produce natural gas and gas condensate from the exploration fields to a limit of 10% of total reserves estimated and approved by the licensor, the Ministry for Environmental Protection of Ukraine, and may not exceed the cap during the exploration period. Should KUB-Gas wish to produce more, it would need to convert the exploration license into a production license. The production license allows unlimited production of gas and gas condensate over the terms of the license. Management expects that KUB-Gas will be able to convert the exploration licences into production licences when necessary.

Brunei – Block L (40% interest)

In 2006, KOV Brunei Limited ("**KOV Brunei**"), an indirect wholly-owned subsidiary of Kulczyk Oil, signed a Production Sharing Agreement ("**PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**") granting KOV Brunei a 90% working interest in the right to explore for and produce oil and gas from Block L situated on both onshore and shallow offshore areas of northern Brunei.

In 2010, AED (SE Asia) Limited ("**AED**") acquired a 50% interest in the PSA. The consideration consisted of AED paying cash of approximately $1.4 million to KOV Brunei for previously incurred costs, and agreeing to fund 100% of the Phase 1 work program required by the PSA to a maximum expenditure of approximately $21.7 million. As part of the approval of the assignment, the Company and its joint venture partners agreed to spend $4.5 million on work in addition to that specified in the PSA for Phase 1.

As at December 31, 2010, approximately $61.2 million in expenditures have been incurred by the Company and its joint venture partners in meeting work commitments, and pursuant to the acquisition agreement, AED funded 100% of the first $21.7 million in Phase 1 costs incurred. The Company funded 50% of all expenditures between $21.7 million and $25 million and 40% of all expenditures thereafter. As at December 31, 2010, the Company has spent $17.4 million.

In August 2010, the Company and its joint venture partners elected to proceed to the Phase 2 exploration period.

Brunei – Block M (36% interest)

The Company acquired a 36% interest in the Brunei Block M Production Sharing Agreement effective September 15, 2009 with the acquisition of Triton Hydrocarbons Pty Ltd. ("**Triton Hydrocarbons**") (Note 14).

As at December 31, 2010 approximately $56.2 million in expenditures have been incurred by the joint venture partners in meeting its work commitments. Since acquiring its interest in Block M, the Company has spent $13.6 million.

In February 2011 the Company and its joint venture partners, announced they had elected to proceed to the Phase 2 exploration period.

Syria – Block 9 (45% interest)

Loon Latakia Limited ("**Loon Latakia**"), an indirect wholly-owned subsidiary of 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 which became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9 located in north-western Syria. The Company's 100% participating interest in the Block 9 Contract is subject to economic and beneficial interests held by Triton Hydrocarbons and MENA Hydrocarbons (Syria) Ltd ("**MENA**"), pending formal approval by the Syrian authorities of a 20% and a 30% participating interest in the Contract to Triton Hydrocarbons and MENA respectively.

As part of the consideration for purchasing Triton Hydrocarbons in September 2009, the Company has agreed to transfer a 20% beneficial interest in Block 9 to Triton Petroleum Pte Ltd. ("**Triton Petroleum**") pending the consent of the Syrian government for a transfer of a direct 20% participating interest in the Contract to Triton. The Company is currently in the process of seeking that approval. If that approval is not obtained, Triton will be issued an amount of equity in Loon Latakia such that Triton receives the economic benefit it would have received had the approval been given by the Syrian authorities. Once that approval is obtained, or Triton takes an equity interest as described above, beneficial interest currently held by Triton in Block 9 will be extinguished.

The Company has also agreed to assign a 5% interest in Block 9 to an unrelated party.

On September 1, 2010, the Company entered into a farm-out agreement with MENA whereby Loon Latakia agreed to assign a 30% ownership interest in Syria Block 9 to MENA effective June 17, 2010. The transfer of the 30% ownership interest to MENA is subject to the approval of Syrian authorities, and until such approval is received, MENA will retain an economic interest in Syria Block 9 equivalent to a 30% ownership interest. In the event that approval of the Syrian authorities is not obtained by April 14, 2011, the farm-out agreement may be terminated at the request of either party and any payments made by MENA returned. All documents required by the Syrian authorities in seeking their approval of the transfer have been submitted. As consideration, MENA agreed to pay: (i) 30% of historical costs incurred by the Company to the date of the agreement with MENA, being $3.1 million, (ii) 30% of the value of the bank guarantee outstanding at June 17, 2010, being $2,027,472 and (iii) pay 60% of the authorized drilling costs of the first exploratory well. MENA paid $1.0 million of the total aggregate consideration due of $5.1 million in 2010, an additional $1.0 million in January 2011 and the balance is due in March 2011.

The aggregate effect of the disposition of a 20% interest to Triton Petroleum, the assignment of 5% to the unrelated 3rd party and the MENA farm-out of a 30% interest leaves the Company with an effective interest in Block 9 of 45%.

As at December 31, 2010, approximately $9.9 million in expenditures have been incurred on Block 9. The Company's portion of these expenditures as at December 31, 2010 was $5.1 million, net of $2.9 million of historical costs reimbursed by MENA.

Slovenia

The Company had interests in a project in Slovenia for which there were no plans to invest further capital and accordingly, all amounts related to Slovenia were written off in 2009. The Company sold all of its interests in Slovenia in August 2010 and recorded a gain on sale of $315,339.

Dividends

To date, the Company has not paid a dividend and does not anticipate paying dividends in the foreseeable future. Should the Company decide to pay dividends in the future, the Company would be required to satisfy certain liquidity tests as established in the Alberta Business Corporations Act.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared using International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

This is the first year for which the Company has adopted IFRS and therefore the consolidated financial statements include a reconciliation of the Company's annual consolidated financial statements for the year ending December 31, 2009 prepared in accordance with Canadian Generally Accepted Accounting Principles to the consolidated financial statements prepared in accordance with IFRS.

These consolidated financial statements were approved by the Company's Board of Directors on March 16, 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments which are measured at fair value as explained in the significant accounting policies set out in note 4. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

(c) Going concern

The Company is an oil and gas exploration and development company with properties principally located in Brunei, Syria and Ukraine. The Company's properties in Brunei and Syria are in the exploration stage and have no proved reserves or production revenue. The production from the Company's Ukrainian operations is not sufficient to fund the continued exploration and development of all of the Company's oil and gas properties.

In May 2010, the Company completed an Initial Public Offering ("**IPO**") of its common shares on the WSE which resulted in the issuance of 166,394,000 shares for gross proceeds of approximately $93 million (Polish Zloty ("**PLN**") 314,484,660). These funds, after completing the KUB-Gas acquisition, were sufficient to fund the Company's capital program for 2010.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business and do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid. To date, the Company's exploration and development operations have been financed by way of equity issuances and by farm-out arrangements with third parties who pay for all or a portion of the Company's expenditures to earn a portion of the Company's ownership interests. The Company's cash and restricted cash and existing farm-out arrangements are not sufficient to fund the exploration and development program over the next twelve months. Additional equity or farm-out arrangements will be required to fund the exploration and development program and there are no guarantees that additional equity or farm-out arrangements will be available when needed.

(d) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and its subsidiaries with the exception of KUB-Gas which uses the Ukraine Hryvnia as its functional currency.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4 – Reserves estimates and depletion
- Note 5 – Determination of fair values
- Note 13 – Acquisition of KUB-Gas
- Note 14 – Acquisition of Triton Hydrocarbons (Pty) Ltd.
- Note 16 – Convertible debentures (valuation of embedded conversion derivative)
- Note 17 – Income taxes
- Note 19 – Stock options (measurement of share-based payments)

3. First Time adoption of IFRS

The Company adopted IFRS on January 1, 2010 with a transition date of January 1, 2009. Prior to IFRS, the Company applied Canadian Generally Accepted Accounting Principles ("**GAAP**"). Under IFRS 1 'First time Adoption of International Financial Reporting Standards', IFRS is applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in the deficit.

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company.

3.1 Consolidated Statement of Financial Position

Presented below are reconciliations to IFRS of the consolidated statements of financial position of the Company from the amounts reported under Canadian GAAP.

Kulczyk Oil Ventures Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Stated in U.S. Dollars)

	Cdn GAAP January 1, 2009	Notes a	Notes b	Notes d	IFRS January 1, 2009
Assets					
Current Assets					
Cash and cash equivalents	$ 9,322,225				$ 9,322,225
Accounts receivable	289,696				289,696
Prepaid expenses	165,526				165,526
Total Current Assets	9,777,447				9,777,447
Non Current Assets					
Restricted cash	7,500,000				7,500,000
Investments	610,764				610,764
Property and equipment	4,483,162	(566,135)	(3,692,304)		224,723
Exploration and evaluation assets	-		3,692,304		3,692,304
Total Assets	$ 22,371,373				$ 21,805,238
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities	$ 1,936,112				$ 1,936,112
Income taxes payable	3,563				3,563
Total Current Liabilities	1,939,675				1,939,675
Decommissioning provision	15,372				15,372
Total Liabilities	1,955,047				1,955,047
Shareholders' Equity					
Share capital	32,727,754				32,727,754
Contributed surplus	4,097,012			(36,072)	4,060,940
Accumulated other comprehensive income	(2,128,526)		2,128,526		-
Deficit	(14,279,914)	(566,135)	(2,128,526)	36,072	(16,938,503)
Total Shareholders' Equity	20,416,326				19,850,191
Total Liabilities and Shareholders’ Equity	$ 22,371,373				$ 21,805,238

Kulczyk Oil Ventures Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Stated in U.S. Dollars)

	Cdn GAAP December 31, 2009	Notes b	Notes c	Notes c	Notes d	Notes e	IFRS December 31, 2009
Assets							
Current Assets							
Cash and cash equivalents	$ 784,810						$ 784,810
Accounts receivable	659,899						659,899
Prepaid expenses	367,280						367,280
Total Current Assets	1,811,989						1,811,989
Non Current Assets							
Deposit on acquisition	1,350,000						1,350,000
Restricted cash	6,758,241						6,758,241
Investments	578,649						578,649
Investment in affiliates	100,000						100,000
Other assets	1,699,903						1,699,903
Property and equipment	139,137,747	(138,879,758)					257,989
Exploration and evaluation assets	-	138,879,758				(66,200,080)	72,679,678
Total Assets	$151,436,529						$ 85,236,449
Liabilities							
Current Liabilities							
Accounts payable and accrued liabilities	$ 4,538,627						$ 4,538,627
Convertible debentures	7,272,229						7,272,229
Total Current Liabilities	11,810,856						11,810,856
Decommissioning provision	16,247						16,247
Convertible debentures	7,471,208						7,471,208
Derivative liability associated with convertible debentures	-		(1,186,884)	4,238,873			3,051,989
Deferred taxes	66,200,080					(66,200,080)	-
Total Liabilities	85,498,391						22,350,300
Shareholders' Equity							
Share capital	84,727,754						84,727,754
Convertible debentures equity component	4,238,873			(4,238,873)			-
Contributed surplus	7,649,395				(356,622)		7,292,773
Accumulated other comprehensive income	(2,128,526)	2,128,526					-
Deficit	(28,549,358)	(2,128,526)	1,186,884		356,622		(29,134,378)
Total Shareholders' Equity	65,938,138						62,886,149
Total Liabilities and Shareholders' Equity	$151,436,529						$ 85,236,449

(Stated in U.S. Dollars)

3.2 Consolidated Statement of Operations and Comprehensive Loss

Presented below are reconciliations to IFRS of the net loss and comprehensive loss of the Company from the amounts reported under Canadian GAAP:

	Cdn GAAP Year ended December 31, 2009	Notes a	Notes b	Notes c	Notes d	IFRS Year ended December 31, 2009
Operating Expenses						
General and administrative	$ 4,463,732	161,873				$ 4,625,604
Acquisition costs - Triton	2,526,650					2,526,650
Acquisition costs - KUB	1,490,235					1,490,235
Stock based compensation	3,552,383				(320,550)	3,231,833
Depreciation	117,666		(875)			116,791
Impairment of exploration and evaluation assets	906,008	(728,008)				178,000
	13,056,674					12,169,113
Finance income (expense)						
Interest and other Income	37,935					37,935
Interest and accretion	(1,305,089)		(875)			(1,305,964)
Unrealized loss on investment	(300,307)		(96,962)			(397,269)
Mark to market gain on derivative liability	-			1,186,883		1,186,883
Foreign exchange gain	354,691		96,962			451,653
	(1,212,770)					(26,762)
Net Loss and Comprehensive Loss	$ (14,269,444)					$ (12,195,875)
Basic and Diluted Loss per Share	$ (0.10)					$ (0.08)

3.3 Statement of Cash Flows

The adoption of IFRS did not impact the amounts reported as the operating, investing and financing cash flows in the consolidated statements of cash flows except as to the presentation of acquisition costs. Under Canadian GAAP, acquisition costs were presented as an investing activity. Under IFRS they are presented as an operating activity.

Notes to the IFRS reconciliations

(a) Pre-exploration costs

The Company incurred pre-exploration costs to evaluate projects, acquisition and farm-ins. Under Canadian GAAP, pre-acquisition costs were capitalized to property and equipment. Under IFRS pre-acquisition costs are expensed as incurred, and accordingly, effective January 1, 2009, all the pre-acquisition costs were expensed.

(b) Reclassifications

(i) Exploration and evaluation (E&E) assets

E&E assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Under Canadian GAAP these costs were grouped with property and equipment. Under IFRS E&E assets are classified as a separate line in the balance sheet.

(ii) Accumulated other comprehensive income

On the date of adoption of IFRS, the Company elected to reclassify foreign exchange translation losses included in accumulated other comprehensive income recognized in accordance with Canadian GAAP to the deficit. As such, the accumulated other comprehensive income at January 1, 2009, which was made up entirely of cumulative translation differences, was reclassified to the deficit.

(iii) Accretion on decommission provision

Under Canadian GAAP accretion on the decommissioning provision was included in depreciation and depletion. Under IFRS it is required to be included in interest expense.

(iv) Foreign exchange on investment

Under Canadian GAAP foreign exchange on the Jura Energy Corporation ("**Jura**") investment was included in foreign exchange gains and losses. Under IFRS it is required to be included in the gains and losses on the investment.

(c) Adjustment of convertible debentures

The Company issued convertible debentures in 2009. A portion of the proceeds was allocated to liabilities and the residual was allocated to equity under Canadian GAAP. Under IFRS, the equity conversion feature embedded in the debenture was considered a derivative liability until the price of the conversion feature was fixed in 2010. The conversion price in the debentures was fixed by an amending agreement based partially on the initial share price upon listing on the WSE. During the period of time that the conversion feature on the debenture had a variable price, the conversion feature was considered to be a derivative, classified as a liability and marked to market at each reporting date. Once the conversion price was fixed, the fair value of the derivative was reclassified to equity.

(d) Adjustment of stock based compensation expense

Recognition of expense – Under Canadian GAAP the Company used the straight line method to expense vested options. The fair value of stock based awards was calculated as one grant and the resulting fair value was recognized on a straight line basis over the vesting period. Under IFRS each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

Forfeitures **–** Under Canadian GAAP forfeitures of awards were recognized as they occurred. Under IFRS forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods.

(e) Acquisition adjustment

In September 2009, the Company acquired all the issued and outstanding ordinary shares of Triton, a private Australian company in exchange for newly issued common shares of Kulczyk Oil. Under Canadian GAAP, the purchase allocation calculated on the Triton Hydrocarbon acquisition (Note 14) resulted in a deferred tax liability of $66,200,080. However under IFRS a deferred tax liability is not recognized on the amount allocated to exploration and evaluation assets.

(f) Re-designation of investment

The Company owns approximately 7.5 million common shares of Jura. Under Canadian GAAP the investment was classified as an available for sale investment. The gains or losses on the change in the fair value of the investment from period to period were recorded in other comprehensive loss until such time that the change is considered not to be temporary, which occurred as at December 31, 2009 and 2008. When the decline in fair value was considered not to be temporary, the losses that accumulated in other comprehensive income were reclassified to the statement of operations. Under IFRS the investment is accounted for at fair value with changes in fair value included directly in the statement of operations.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. KOV has one direct wholly-owned subsidiary, Kulczyk Oil Ventures Limited ("**KOV Cyprus**"). Through KOV Cyprus, KOV has three indirect wholly-owned subsidiaries, KOV Brunei Limited which holds the Company's interest in Brunei Block L, Loon Latakia which holds the Company's interest in Syria Block 9 and KOV Borneo Limited ("**KOV Borneo**") which holds the Company's interest in Brunei Block M. KOV Cyprus also owns 70% of Loon Ukraine Holding Limited ("**Loon Ukraine**") which holds a 100% interest in KUB-Gas.

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

(ii) Equity accounted investees

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. The Company has two equity accounted investments; Mauritania International Petroleum Inc. ("**MIPI**") and Triton Petroleum.

Equity accounted investees are recognized initially at cost. The Company's investment includes goodwill (if any) identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the net income or loss and equity movements of equity accounted investees, after adjustments to align accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

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

(iv) Transactions eliminated on consolidation
Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign Currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period-end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss. The Company has no non-monetary assets denominated in foreign currencies.

(ii) Foreign currency translation
KUB-Gas uses the Ukraine Hryvnia as its functional currency. The assets and liabilities of KUB-Gas are translated into U.S. dollars at the period-end exchange rate. The income and expenses of KUB-Gas are translated into U.S. dollars at the average exchange rate for the period. Translation gains and losses are included in other comprehensive income.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments include cash and cash equivalents, restricted cash, trade and other receivables, investments, trade and other payables, and the liability portion of the convertible debenture. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs, except for financial assets at fair value through profit or loss whereby any directly attributable transaction costs are expensed as incurred. Subsequent to initial recognition, non-derivative financial instruments are designated into one of the following categories and measured as described below.

Held to maturity investments
Subsequent to the initial recognition, held to maturity investments are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no held to maturity investments.

Available-for-sale assets
Subsequent to the initial recognition, available-for-sale assets are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items are recognized directly to equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. The Company has no available-for-sale assets.

Financial assets at fair value through profit or loss
The Company's investments in Jura Energy Corporation and Karl Thomson Holdings Ltd. ("**Karl Thomson**") are financial assets recorded at fair value through profit or loss. Subsequent to the initial recognition, these financial instruments are measured at fair value, and changes therein are recognized in profit or loss.

The Company has reported cash and cash equivalents and restricted cash at fair value. Cash and cash equivalents are comprised of cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the

Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Restricted cash is comprised of cash held in trust by a financial institution for the benefit of a third party as a guarantee that certain work commitments will be met. Once the work commitments are met, the restricted cash is released from the trust and returned to cash.

<u>Other</u>
The Company's trade and other receivables, trade and other payables and the liability portion of the convertible debentures, are classified as other non-derivative financial instruments. Subsequent to the initial recognition, other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Convertible debentures

The convertible debt, subsequent to the settlement of an amending agreement with the debenture holders is considered a compound instrument as it can be converted to a fixed number of common shares at the option of the holder. Until the price of the conversion feature was fixed in 2010, the conversion feature was accounted for as an embedded derivative whereby the equity conversion feature was fair valued each period with the changes in fair value included in profit and loss.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method.

Interest, dividends, losses and gains relating to the financial liability are recognized in the profit and loss. Distribution to the equity holders are recognized against equity, net of any tax benefit.

(iii) Share capital

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

(d) Property, plant and equipment and intangible exploration assets:

(i) Recognition and measurement:

<u>Exploration and evaluation ("E&E") expenditures:</u>
Pre-license costs are recognized in the statement of operations as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Interest and borrowing costs incurred on E&E assets are not capitalized. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by concession or field area.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and natural gas interests.

Development and production costs:
Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("**CGU**") for impairment testing and categorized within property and equipment as oil and natural gas interests. Plant and equipment is comprised of drilling and well servicing assets, office equipment and other corporate assets. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

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

(ii) Subsequent costs:

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

(iii) Depletion and depreciation:

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

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successfully tested by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Plant and equipment are recorded at cost and are depreciated over the estimated useful lives of the asset using the declining balance basis at rates ranging from 10% to 30%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets, except E&E assets, are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGU's that are expected to benefit from the synergies of the combination. E&E assets are assessed for impairment at the level of a concession or area, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

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

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

(f) Provisions

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

(i) Decommissioning obligations:

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(ii) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on associated assets. The Company has no onerous contracts.

(g) Revenue recognition

Revenue from the sale of gas and gas condensate is recognised in profit or loss when the significant risks and rewards of ownership are transferred to the buyer and if collection is reasonably assured.

The selling price of gas in Ukraine is determined based on the application of prices for gas sales as approved by the Ukrainian National Commission on Energy Regulation.

Prices for gas condensate are established at the market based on actual correspondence of supply and demand at a particular period of time.

(h) Finance income and expenses

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

Borrowing costs incurred on exploration and evaluation assets are expensed as incurred. Borrowing costs derived on debt specifically related to the construction of qualifying assets, if any, in the development stage will be capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate that will be used to determine the amount of borrowing costs to be capitalized will be the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

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

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(i) Share based payments

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

(j) Income tax

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(k) Loss per share

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

(l) Recent accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the 2010 reporting period. The following standards and updates ("**IFRIC**") are assessed to not have a significant impact on the Company's financial statements:

(i) IAS 24 Related Party Disclosure:

Effective for accounting periods commencing on or after 1 January 2011;

(ii) IAS 32, Amendment for Classification of Rights Issues:

Effective for accounting periods commencing on or after 1 February 2010;

(iii) IFRS 9 Financial Instruments:

Effective for accounting periods commencing on or after 1 January 2013;

(iv) IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:

Effective for accounting periods commencing on or after 1 July 2010;

5. Determination of fair values

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

(i) Property and equipment and intangible exploration assets:

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve and resource reports.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, trade and other receivables, and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying value due to their short term to maturity.

(iii) Stock options

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

(Stated in U.S. Dollars)

(iv) Financial assets and liabilities

The carrying value of the Company's financial assets and liabilities, except for its investment in Jura and Karl Thomson and the convertible debentures 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 are recorded at fair value based on the quoted market prices for the shares. The fair value of the convertible debentures approximate their fair values at December 31, 2010 due to the proximity of their maturing date to the end of the reporting period.

6. Deposit on acquisition

Kulczyk Oil entered into two Sale and Purchase Agreements in November 2009 with Gastek LLC ("**Gastek**") under which the Company agreed to acquire effective ownership of 70% of the shares of KUB-Gas, a Ukrainian company with natural gas producing assets, and drilling and other service equipment for a purchase price of $45 million. A deposit of $1.35 million was paid to Gastek upon the signing of the acquisition agreement and a further deposit of $1.4 million was paid on April 28, 2010. The acquisition closed on June 11, 2010 and the deposits were applied against the purchase price (Note 13).

7. Restricted cash

Pursuant to the terms of a petroleum exploration license for Block 9 in Syria, the Company posted a performance guarantee in the amount of $7,500,000 in 2007. The funds posted as a performance guarantee are released as the Company completes the work commitments required under the agreement. The Company is entitled to earn interest on these funds. As at December 31, 2010 the Company had a total of $5,040,992 (December 31, 2009 - $6,758,241) remaining on the performance guarantee. Of this amount, $1,750,000 was released in January 2011 and an additional $250,000 is due to be released later in 2011, and as such $2,000,000 is classified as a current asset. 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 agreed to fund 30% of the bank guarantee; the amount of the bank guarantee due from MENA is reflected as an accounts receivable.

The fair value of the restricted cash approximates its carrying value.

8. Investments

Jura Energy Corporation
The Company owns approximately 7.5 million common shares of Jura. As at December 31, 2010, the quoted market value of the investment was $371,113 (December 31, 2009 - $213,495) (level 1 fair value) and for the year ended December 31, 2010 an unrealized gain of $157,618 (December 31, 2009 loss of $397,269) has been recorded in the statement of operations.

Karl Thomson Holdings Ltd
On September 15, 2009, the Company acquired Triton Hydrocarbons (Note 14) which included an investment in common shares of Karl Thomson Holdings Ltd. – a company whose common shares are traded on the Hong Kong Stock Exchange. As at December 31, 2010, the quoted market value of the investment was $235,496 (December 31, 2009 - $365,154) (level 1 fair value).

9. Investments in associates

	December 31, 2010	December 31, 2009
Investment in Mauritania International Petroleum Inc.	$ 100,000	$ 100,000
Investment in Triton Petroleum	1,515,869	-
Total investments in associates	$ 1,615,869	$ 100,000

(Stated in U.S. Dollars)

The Company acquired a 35% investment in ("MIPI") as part of the Triton Hydrocarbons acquisition. MIPI holds a 100% interest in four contiguous exploration blocks located offshore Mauritania. The Company intends to review the resource potential of these exploration blocks in the future. MIPI conducted no operations during the years ended December 31, 2010 and 2009.

The Company presently owns 30% of Triton Petroleum. In the second quarter of 2010, as part of the consideration due for the Triton Hydrocarbons acquisition (Note 14), the Company transferred $3,000,000 in cash to Triton Petroleum, which was then 50% owned by the Company. The Company also recorded the transfer of a 20% beneficial interest in Syria Block 9 to Triton Petroleum based on the book value of the asset. The transfer of the cash and the recognition for accounting purposes of the transfer of the 20% beneficial interest in Syria Block 9 resulted in an investment in Triton Petroleum of $1,741,842. On December 20, 2010 Triton Petroleum raised $1,800,526 of new equity through the issuance of common shares. This issuance reduced the Company's ownership to 30%. As a result of the dilution of ownership interest and the recognition of the Company's share of the net loss of Triton Petroleum, a loss of $225,973 was recorded in 2010.

10. Other assets

In May 2010, the Company completed an IPO and listed its common shares for trading on the WSE. As at December 31, 2009, $1,699,903 of costs associated with the IPO and the WSE listing were recorded as other assets and were reclassified, along with $4,838,859 of costs incurred in the current year, to share issue costs in 2010 (Note 19).

11. Property and equipment

	Oil and Natural gas interests	Plant and equipment	Other	Total
Cost or deemed cost:				
Balance at January 1, 2009	$ -	$ -	$ 224,723	$ 224,723
Additions	-	-	150,057	150,057
Balance at December 31, 2009	-	-	374,780	374,780
Acquisition through business combinations	53,096,040	9,000,063	1,718,635	63,814,738
Reclassification from exploration and evaluation	6,551,038	-	-	6,551,038
Additions	2,476,115	497,472	634,983	3,608,570
Foreign currency translation adjustment	49,624	37,838	7,175	94,637
Balance at December 31, 2010	$ 62,172,817	$ 9,535,373	$ 2,735,573	$ 74,443,763
Depletion, depreciation and impairments:				
Balance at January 1, 2009	$ -	$ -	$ -	$ -
Depletion and depreciation	-	-	(116,791)	(116,791)
Balance at December 31, 2009	-	-	(116,791)	(116,791)
Depletion and depreciation	(2,346,976)	(145,418)	(249,236)	(2,741,630)
Foreign currency translation adjustment	1,179	3,282	523	4,984
Balance at December 31, 2010	$ (2,345,797)	$ (142,136)	$ (365,504)	$ (2,853,437)
Net book value:				
At December 31, 2009	$ -	$ -	$ 257,989	$ 257,989
Balance at December 31, 2010	$ 59,827,020	$ 9,393,237	$ 2,370,069	$ 71,590,326

(Stated in U.S. Dollars)

Property and equipment includes internal costs directly related to exploration, development and construction activities of $70,236 (2009 - $nil).

12. Exploration and evaluation assets

Reconciliation of the movements in E&E assets:

	Year ended December 31, 2010	Year ended December 31, 2009
Carrying amount, beginning of year	$ 72,679,678	$ 3,692,304
Additions	31,514,918	7,262,097
Reclassification to property and equipment	(6,551,038)	-
Farm-out of 30% of Syria Block 9 to MENA	(3,131,520)	-
Acquisition of KUB-Gas (Note 13)	6,216,812	-
Acquisition of Triton Hydrocarbons (Note 14)	1,741,861	61,903,277
Farm-out of 20% of Syria Block 9 to Triton (Note 14)	(483,722)	-
Impairment on Slovenia assets	-	(178,000)
Cumulative translation adjustment	29,914	-
Carrying amount, end of year	$ 102,016,903	$ 72,679,678

E&E assets consist of the Company's intangible exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the year. The following is a breakdown of the carrying value of the E&E assets:

	As at December 31, 2010	As at December 31, 2009
Brunei		
Block L	$ 17,421,257	$ 6,442,524
Block M	75,952,005	63,058,794
Total Brunei	93,373,262	69,501,318
Syria, Block 9	5,077,537	3,178,360
Ukraine	3,566,104	-
	$ 102,016,903	$ 72,679,678

E&E assets include internal costs directly related to exploration activities of $42,081 (2009 - $nil).

(a) Additions, dispositions and acquisitions:

Pursuant to a farm-out agreement dated September 1, 2010, the Company agreed to assign a 30% ownership interest in Syria Block 9 to MENA effective as of June 17, 2010 subject to approval of the Syrian government. As consideration, MENA agreed to pay: (i) 30% of the historical costs incurred by the Company to June 30, 2010, being $3,131,520, (ii) 30% of the value of the bank guarantee outstanding at June 17, 2010, being $2,027,472 and (iii) pay 60% of the authorized drilling costs of the first exploratory well.

During the second quarter of 2010, the Company completed the KUB-Gas acquisition (Note 13). The allocation of the purchase consideration paid resulted in a value of $6,216,812 being assigned to intangible E&E assets.

During the third quarter of 2009, the Company completed the Triton Hydrocarbons acquisition (Note 14). The allocation of the purchase consideration paid resulted in a value of $61,903,277 being assigned to intangible E&E assets representing Triton Hydrocarbon's interest in Block M in Brunei.

(b) Amortization and impairment charge:

The impairment of intangible exploration and evaluation assets, and any eventual reversal thereof, is recognized in the statement of profit and loss. During the year ended December 31, 2009, the Company wrote-off the carrying value of $178,000 with respect to assets in Slovenia.

(c) Recoverability of exploration and evaluation assets:

The Company assesses the recoverability of E&E assets, before and at the time of reclassification to property and equipment, at the concession or area level.

13. Acquisition of KUB-Gas

On November 10, 2009, Kulczyk Oil entered into two Sale and Purchase Agreements with Gastek, a United States company, pursuant to which the Company agreed to acquire an effective 70% ownership interest in the statutory charter capital of KUB-Gas, a Ukrainian company with natural gas and gas condensate producing assets and other service equipment, together with a Canadian built drilling rig, for a purchase price of $45 million, less closing adjustments. A deposit of $1.35 million was paid to Gastek upon the signing of the acquisition agreements and an additional $1.4 million deposit paid to Gastek in April 2010. The acquisition closed on June 11, 2010. Acquisition costs incurred prior to the acquisition closing on June 11, 2010 totaled $2,862,435 of which $1,372,200 were incurred during the year ended December 31, 2010.

(Stated in U.S. Dollars)

	Pre-Acquisition Carrying Amounts	Fair Value Adjustments	Recognized values on acquisition
Cash and cash equivalents	$ 56,724	$ -	$ 56,724
Accounts receivable	242,479	-	242,479
Prepaid expenses and deposits	49,417	-	49,417
Other current assets	145,138	-	145,138
Property and equipment	14,792,934	49,021,804	63,814,738
Exploration and evaluation assets	6,216,812	-	6,216,812
Accounts payable and accrued liabilities	(1,631,751)	-	(1,631,751)
Decommissioning provision	(110,161)	-	(110,161)
Deferred tax liability	(1,770,168)	(3,840,079)	(5,610,247)
Net identifiable assets and liabilities	$ 17,991,424	$ 45,181,725	63,173,149
Non-controlling interest			(18,951,944)
Consideration			$ 44,221,205
Consideration per agreements			$ 45,000,000
Closing adjustments			(778,795)
Cash consideration			44,221,205
Cash and cash equivalents acquired			(56,724)
Acquisition of subsidiary, net of cash acquired			$ 44,164,481
Acquisition of subsidiary, net of cash acquired			$ 44,164,481
Deposit for acquisition as at December 31, 2009			(1,350,000)
Cash outflow for acquisition during 2010			$ 42,814,481

The following table shows selected pro forma financial information as if the acquisition had occurred on January 1, 2010 instead of the actual closing of June 11, 2010:

	Year ended December 31, 2010
Oil and natural gas revenue	$ 13,992,128
Net loss for the period	$ (17,675,611)
Per share - basic and diluted	$ (0.06)

14. Acquisition of Triton Hydrocarbons (Pty) Ltd

In September 2009, the Company made an offer to the shareholders of Triton Hydrocarbons, a private Australian company, to acquire all of the issued and outstanding ordinary shares of Triton Hydrocarbons in exchange for newly issued common shares of Kulczyk Oil. The Company received acceptances from Triton Hydrocarbons shareholders holding more than 75% of the total number of Triton Hydrocarbons shares then outstanding, enabling Kulczyk Oil to acquire the remaining Triton shares through an extension of the offer and by using the compulsory acquisition rights provided for in Triton's constitution (the "**Triton Hydrocarbons Acquisition**"). The Triton Hydrocarbons Acquisition was deemed to be effective September 15, 2009, which is the date that the outcome of the proposed transaction became certain.

(Stated in U.S. Dollars)

The Triton Hydrocarbons Acquisition resulted in the shareholders of Triton Hydrocarbons receiving as consideration for such shares: (a) an aggregate of 75,065,944 Kulczyk Oil common shares which, at the time of the closing of the Triton Hydrocarbons Acquisition, was equal to approximately 37% of the total number of issued and outstanding common shares of Kulczyk Oil on a fully-diluted basis; (b) 13,670,723 Series A Preferred Shares of Kulczyk Oil, which, as part of the post-acquisition restructuring of Triton Hydrocarbons, were redeemed in exchange for shares of Triton Petroleum on a 1:1 ratio, such that the former shareholders of Triton Hydrocarbons held an aggregate 50% direct interest in Triton Petroleum; (c) Kulczyk Oil caused Loon Latakia to hold a 20% beneficial interest in Syria Block 9 for Triton Petroleum; and (d) a commitment by Kulczyk Oil to make a capital contribution of $3 million in cash to Triton Petroleum after the completion of Kulczyk Oil's initial public offering. Triton Petroleum is a private company which was formerly a wholly-owned subsidiary of Triton Hydrocarbons, and which is managed by the former Triton Hydrocarbons management team. At the time of closing, the Company held the remaining 50% in Triton Petroleum indirectly.

Loon Latakia has submitted a request to the Syrian government for its consent to assign a 20% interest to Triton Petroleum. Until such time as the approval of the Syrian authorities are formally provided, Triton holds equitable rights in Loon Latakia (Note 1). If such approval is not obtained, Triton will receive an issue of ordinary equity in Loon Latakia.

As part of the completion of the Triton Hydrocarbons Acquisition, Kulczyk Oil issued a secured subordinated convertible debenture, the Tiedemann Investment Group ("**TIG**") convertible debenture, on September 15, 2009 in the amount of US$10,010,000 to replace a convertible note that had been previously issued by Triton Hydrocarbons (Note 16).

Triton Hydrocarbons held a 36% interest in Brunei Block M. In accordance with the terms of the Block M Production Sharing Agreements, PetroleumBRUNEI had the right to purchase Triton's 36% interest in Brunei Block M at its fair market value upon a change in control of Triton Hydrocarbons. On January 20, 2010 Kulczyk Oil received notification that PetroleumBRUNEI waived its right to purchase Triton's interest in Brunei Block M.

The effective date of the Triton Hydrocarbons acquisition for accounting purposes is September 15, 2009. As discussed above, certain aspects of the post-acquisition restructuring for the Triton Hydrocarbons acquisition were completed in June 2010, and accordingly certain components of the purchase allocation were recorded in 2009 and the remainder was recorded in June 2010. In June 2010, the Company recorded the assignment of 20% of Syria Block 9 and the capital contribution of $3 million was completed.

	Transactions completed at September 15, 2009	Transaction completed in June 2010	Total
Consideration			
Common shares	$ 52,000,000	$ -	$ 52,000,000
Convertible debenture - liability component	7,010,000	-	7,010,000
Deritive liability on convertible debenture	3,000,000	-	3,000,000
Assignment of 20% of Syria Block 9	-	483,722	483,722
Cash	-	3,000,000	3,000,000
	$ 62,010,000	**$ 3,483,722**	**$ 65,493,722**
Allocation of Consideration			
Working capital (including cash of $1.7 million)	$ (465,741)	$ -	$ (465,741)
Investment - Karl Thompson Shares (Note 8)	472,464	-	472,464
Exploration and evaluation assets	61,903,277	1,741,861	63,645,138
Investment in Mauritania International Petroleum Inc.	100,000	-	100,000
Investment in Triton Petroleum (Note 9)	-	1,741,861	1,741,861
	$ 62,010,000	**$ 3,483,722**	**$ 65,493,722**

(Stated in U.S. Dollars)

In connection with the Triton Hydrocarbons acquisition, the Company incurred $197,828 of acquisition costs during the year ended December 31, 2010 (2009 - $2,526,650) that were expensed in the statement of operations. The Company's consolidated statement of operations reflects the expenses of Triton Hydrocarbons and its subsidiaries from September 15, 2009 onwards.

Triton Hydrocarbons also held a 35% interest in MIPI which has exploration assets in Mauritania.

The Triton Hydrocarbons Acquisition was not accounted for as a business combination as it is in the exploration and evaluation stage.

15. Decommissioning provisions

The Company's provisions consist entirely of decommission obligations, which result from its ownership interests in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $398,214 as at December 31, 2010 (December 31, 2009 – $16,247). The discount factor is 6%.

	As at December 31, 2010	As at December 31, 2009
Balance, beginning of year	$ 16,247	$ 15,372
Obligations acquired (Note 13)	110,161	-
Provision for new wells and change in estimates	266,965	-
Accretion	1,622	875
Translation adjustment	3,219	-
Balance, end of year	$ 398,214	$ 16,247

16. Convertible debentures

Kulczyk Investments - convertible debenture (current)

	Face Value	Liability Component	Derivative Liability
Balance January 1, 2009	$ -	$ -	$ -
Issued	8,000,000	6,761,128	1,238,872
Mark to market adjustment	-	-	(346,883)
Accretion	-	511,101	-
Balance December 31, 2009	8,000,000	7,272,229	891,989
Issued	12,000,000	11,310,346	689,654
Converted	(20,000,000)	(20,000,000)	(1,388,537)
Mark to market adjustment	-	-	(193,106)
Accretion	-	1,417,425	-
Balance December 31, 2010	$ -	$ -	$ -

The Company entered into agreements for an unsecured convertible debt facility for up to $20 million with Kulczyk Investments S.A. ("**KI**") (the Company's major shareholder, owning 49.9% of common shares issued at December 31, 2010). The convertible debenture bore interest at a rate of 7.16% compounding semi-annually and was scheduled to mature on August 31, 2010.

(Stated in U.S. Dollars)

Of the $20 million then outstanding under the debenture agreement, $14.4 million was converted to 25 million common shares in June 2010. On July 8, 2010, the remaining principal outstanding of approximately $5.6 million was converted to 10,086,842 shares and the interest accrued to the conversion date of $616,857 was paid in cash, of which $121,861 related to 2009.

TIG convertible debenture (current)

	Face Value	Liability Component	Derivative Liability	Equity Component
Balance January 1, 2009	$ -	$ -	$ -	$ -
Issued	10,010,000	7,010,000	3,000,000	-
Mark to market adjustment	-	-	(840,000)	-
Accretion	-	461,208	-	
Balance December 31, 2009	10,010,000	7,471,208	2,160,000	-
Accretion	-	1,570,926	-	-
Reclassifed to equity	-	-	(2,160,000)	2,160,000
Balance December 31, 2010	$ 10,010,000	$ 9,042,134	$ -	$ 2,160,000
Accrued interest for the year ended December 31, 2010	$ -	$ 213,867	$ -	$ -

On September 15, 2009, the Company issued secured convertible debentures in the aggregate amount of $10,010,000 ("**TIG note**") which mature on August 12, 2011 in connection with the Triton Hydrocarbon acquisition (Note 14) to various arms length parties. The 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. In September 2010, the Company paid accrued interest of $729,545 in cash.

During the period in which the conversion price of the debentures was variable, a derivative existed which was marked to market at each reporting date. The derivative was included as a liability and the change in mark to market value was included in profit and loss.

Once the conversion price was fixed in 2010, as a result of an amending agreement between the Company and the debenture holders, the derivative was reclassified to equity.

The conversion price of the debentures into common shares, as amended, is $0.5767 per common share. The conversion of the debentures into common shares of Kulczyk Oil may happen at the holder's discretion at any time up to, and including, the maturity date. As a result, the liability is included in current liabilities on the consolidated statement of financial position.

Interest expense for the year ended December 31, 2010 is $943,412 (2009 - $213,867).

(Stated in U.S. Dollars)

17. Income taxes

The differences between the income tax provisions calculated using statutory rates and the amounts reported are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Loss before income taxes	$ (18,513,765)	$ (12,195,875)
Federal and provincial statutory rate	*28.0%*	*29.0%*
Expected income tax reduction	$ (5,183,854)	$ (3,536,804)
Non-deductible expenditures	1,456,681	593,036
Tax rate differences and net change in tax attributes not recognized	3,470,431	2,943,768
Income tax reduction	$ (256,742)	$ -

The tax effects of temporary differences that give rise to future tax assets/(liabilities) are:

	As at December 31, 2010	As at December 31, 2009
Property and equipment and E&E assets	$ (5,274,468)	$ 85,270
Finance leases	426,569	-
Share issuance costs	1,402,079	44,504
Decommissioning provision	24,267	4,062
Convertible debentures	(435,202)	-
Non-capital losses carried forward	4,242,838	2,890,024
Other	35,307	-
	421,390	3,023,860
Less: Temporary differences not recognized	(5,015,886)	(3,023,860)
Deferred income tax liability	$ (4,594,496)	$ -

Non-capital losses, arising from Canadian operations, are expected to expire by 2029.

The current tax expense is generated from the Company's operations in Ukraine. The corporate income tax rate in Ukraine is 25%.

18. Capital Management

As at December 31, 2010, the Company's total capital resources amounted to $187,261,720 (December 31, 2009 - $77,629,586), consisting of $178,219,048 (December 31, 2009 - $62,886,149) in shareholders' equity, and $9,042,134 (December 31, 2009 - $14,743,437) in convertible debentures. Consistent with prior years, the Company manages its capital structure to maximize financial flexibility making adjustments in light of changes in economic conditions and risk characteristics of the underlying assets. Further, each potential acquisition and investment opportunity is assessed to determine the nature and total amount of capital required together with the relative proportions of debt and equity to be deployed. The Company does not presently utilize any quantitative measures to monitor its capital. The Company has a floating charge on its assets in relation to the TIG note (Note 16).

(Stated in U.S. Dollars)

19. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, with rights and privileges as determined by the Board of Directors.

(b) Issued and outstanding

Common shares issued and outstanding:

	Number of Shares	Carrying amount
Balance, January 1, 2009	125,425,605	$ 32,727,754
Issued pursuant to Triton Hydrocarbons acquisition	75,065,944	52,000,000
Balance, December 31, 2009	200,491,549	$ 84,727,754
Issued pursuant to the initial public offering	166,394,000	93,052,866
Share issue costs	-	(6,538,762)
Repurchased pursuant to stabilization activities	(1,219,061)	(608,498)
Issued on conversion of convertible debentures	35,086,842	20,000,000
Transfer equity portion of convertible debt	-	1,388,537
Options exercised	1,350,000	497,737
Balance, December 31, 2010	402,103,330	$ 192,519,634

Pursuant to market stabilization activities undertaken in accordance with the Company's underwriting agreement, approximately 1.2 million Kulczyk Oil shares were purchased for $547,298 and were returned to the Company's treasury and cancelled at the historical carrying amount of $608,498. The resulting foreign exchange gain of $61,200 was recognized in Deficit.

At December 31, 2010, KI owned approximately 49.9% of the issued and outstanding shares of the Company (December 31, 2009 – 46.1%).

The Company's common shares were delisted from trading on the Toronto Venture Exchange at the Company's request on December 10, 2008. The Company's common shares were listed and commenced trading on the WSE on May 25, 2010.

Preferred shares issued and outstanding:

The Company issued 13,670,723 Series A Preferred Shares to former Triton Hydrocarbons shareholders in connection with the Triton Hydrocarbons Acquisition (Note 14). In June 2010, the post acquisition re-structuring steps were completed which resulted in the Series A Preferred Shares being redeemed and cancelled in exchange for 50% of the shares of Triton Petroleum. As at December 31, 2010 all of the Series A preferred shares had been converted to Triton Petroleum common shares.

(c) Loss per share

	Year ended December 31, 2010	Year ended December 31, 2009
Weighted average number of shares outstanding	320,302,911	129,550,107

(Stated in U.S. Dollars)

As the Company is in a loss position, the effect of outstanding options and convertible debentures are anti-dilutive to the net loss per share.

(d) Stock Options

The Company granted common share purchase options to officers, directors, employees and certain consultants with exercise prices equal to or greater than the fair value of the common shares on the grant date. Upon exercise, the options are settled in common shares issued from treasury. Options generally vest over 2 years and have a life of 5 years.

	Number of Options	Weighted average exercise price per option (US$)
Balance, January 1, 2009	9,110,000	$0.54
Forfeited	(250,000)	$0.41
Expired	(1,550,000)	$0.14
Replacement of expired options on plan amendment	1,550,000	$0.14
Granted	11,180,000	$0.69
Balance, December 31, 2009	20,040,000	$0.63
Granted	16,356,000	$0.62
Exercised	(1,350,000)	$0.14
Expired	(410,000)	$0.57
Balance, December 31, 2010	34,636,000	$0.64

On November 12, 2009, the Company amended its stock option plan, and all previously issued share purchase options. These amendments included the following:

- The expiry date of the options was extended for the period of time from when the Company's shares were delisted from the Toronto Venture Exchange, December 10, 2008, to May 25, 2010 the date the Company's shares commenced trading on the WSE. The options that otherwise expired during that period were replaced with the same number of new options.

- The grant price of each option was reduced to 82% of the original grant price. This reduction is intended to reflect the transfer of assets to Loon Energy Corporation in 2009.

- The grant price has been adjusted to USD from CDN based on the exchange rate in effect on September 15, 2009.

The Company recognized additional stock based compensation expense of $1,724,058 in the last quarter of 2009 as a result of these amendments.

On November 12, 2009, the Company granted 11,180,000 share purchase options at a price of $0.69 per share to certain directors, officers, employees and consultants of Kulczyk Oil. These share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year on the anniversary of the grant date.

On May 25, 2010, the Company granted 15,834,000 share purchase options at a price of $0.62 per share to certain directors, officers, employees and consultants of Kulczyk Oil. These share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year on the anniversary of the grant date.

(Stated in U.S. Dollars)

On October 8, 2010, the Company granted 522,000 share purchase options at a price of $0.62 per share to certain directors, officers, employees and consultants of Kulczyk Oil. These share purchase options have a five year term and vest one-third immediately with the remaining two-thirds at one-third per year on the anniversary of the grant date.

The following table summarizes information about the options outstanding as at December 31, 2010:

	Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$	0.16	100,000	100,000	0.02
$	0.19	100,000	100,000	0.04
$	0.53	500,000	500,000	0.57
$	0.73	1,930,000	1,930,000	0.84
$	0.73	2,460,000	2,460,000	1.55
$	0.42	475,000	475,000	2.76
$	0.47	1,635,000	1,635,000	3.37
$	0.69	11,080,000	3,693,333	3.71
$	0.62	15,834,000	5,278,000	4.40
$	0.62	522,000	174,000	4.77
$	0.64	34,636,000	16,345,333	3.63

(e) Stock Based Compensation expense

The weighted average fair value of the options granted and the assumptions used in the Black-Scholes option pricing are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Weighted average fair value per option	$ 0.22	$ 0.34
Exercise price	$ 0.62	$ 0.69
Volatility	50.0%	63.1%
Interest rate	1.95%	2.78%
Expected life (years)	3	4
Forfeiture rate	3.33%	3.00%
Dividends	Nil	Nil

20. Commitments

Brunei – Block L

The Company has a 40% working interest in Block L. The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA, August 27, 2006 and is divided into two phases. Phase 1 expired on August 27, 2010 and Phase 2 expires August 27, 2012. All Phase 1 work commitments were met prior to August 27, 2010.

The minimum work commitment for the Company and its partners for Phase 1 under the Block L PSA consisted of (i) reprocessing at least 1,500 km of seismic data to the extent it is capable of being reprocessed, (ii) acquiring and reprocessing 350 km^2 of 3D seismic, (iii) drilling 2 wells, each to a depth of at least 2000 metres, and (iv) conducting $4.5 million of additional work, which is to be agreed with PetroleumBRUNEI. The minimum expenditure requirement specified in the PSA for the Phase 1 exploration period is $25.0 million. AED was required to fund 100% of the first $21.7 million in Phase 1 expenditures and the Company was required to fund 50% of the expenditures between $21.7 and $25 million and 40% of all expenditures thereafter. As at December 31, 2010, all Phase 1 work commitments have been met, and the Company has spent $16.0 million for its share of expenditures on Block L.

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 km of onshore 2D seismic data and 500 km of offshore 2D seismic data, (ii) acquire and process not less than 150 km^2 of offshore 3D seismic data and (iii) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. During Phase 2, the Block L joint venture parties are required to spend a minimum of $16 million. The Company's share of the minimum spend is $6.4 million. The Company has arranged a letter of credit in the amount of $2.1 million in support of the performance guarantee required under the Block L PSA. As at December 31, 2010, no amount had been drawn on the letter of credit.

Pursuant to an agreement reached to settle a legal challenge to the Company's title under the PSA, the Company agreed to pay a maximum of $3.5 million out of its 10% future share of profit oil as defined in the Brunei PSA. This amount has not been accrued in these financial statements due to inherent uncertainty of producing profit oil.

Brunei – Block M

The Company has a 36% working interest in Brunei Block M. The Brunei Block M PSA provides for an exploration period of six years from the date of the Brunei Block M PSA, August 27, 2006, and is divided into Phase 1 (six years) and Phase 2 (one years) which run concurrently. Both Phases expire on August 27, 2012. The Company and its partners in Block M must perform the following minimum work obligations by the expiry of Phase 1: (i) re-process at least 1,378 km of seismic data to the extent that the data is capable of being reprocessed; (ii) acquire and process not less than 200 km of 2D seismic data; (iii) acquire and process not less than 200 km^2 of 3D seismic data; and (iv) drill at least two wells, each to a minimum depth of 1,150 metres. Pursuant to an extension agreement, the Company and its partners in Block M must drill an additional well to a minimum depth of 2,000 metres in Phase 1. The Company's share of the minimum spend for Phase 1 is $4.5 million plus an obligation under a farm-in agreement to fund an additional 4% ($501,000) towards a partner's share of expenditures. At December 31, 2010 all Phase 1 work commitments, except for a 2,000 metre well, had been completed. The Company's share of the expected well cost is approximately $4.2 million.

On January 27, 2011, the Block M contractors agreed to enter into Phase 2 of the Exploration Period; which would require a minimum work commitment to be completed by August 27, 2012 of: (i) acquiring and processing not less than 80 km 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$7.3 million during Phase 2. The Company's share of the minimum spend is $2.9 million, including an obligation under a farm-in agreement to fund an additional 4% ($293,000) towards a partner's share of expenditures.

By the end of 2010, field operations completed a 136 km^2 3D seismic survey in the northern part of Block M which fully met the Phase 1 and Phase 2 seismic obligations.

Syria

Under the terms of the Block 9 PSC, the Company has a first phase exploration period of four years, ending on November 27, 2011 during which it has committed to acquire and process 350 km^2 of 3D seismic and drill two exploratory wells. The remaining work commitment outstanding at the end of the year is to drill two exploration wells as the seismic work was completed during the year. The remaining minimum expenditure for the Block 9 partners at the end of the year was $4.0 million for Phase 1, ($2.0 million for each well to be drilled). The Company expects that drilling of the first of two exploratory wells will commence in the second half of 2011. Before the end of Phase 1 the Block 9 contractors shall either: (i) elect to relinquish 25% of the original Agreement Area and enter into Phase 2 of the Exploration Period; or (ii) relinquish all of the Agreement Area.

(Stated in U.S. Dollars)

On September 1, 2010, the Company agreed to assign a 30% ownership interest in Syria Block 9 to MENA effective as of June 17, 2010, subject to obtaining the consent of Syrian authorities to the assignment. As partial consideration, MENA agreed to pay 60% of the authorized drilling costs of the first exploratory well.

The aggregate effect of the disposition of a 20% ownership interest to Triton Petroleum and the MENA farm-out of a 30% interest leaves the Company with a remaining paying interest in Block 9 of 50%. An unrelated third party also has the right to be assigned a 5% interest in Block 9 which reduces the Company's interest in Block 9 to 45%.

Ukraine

The Company has an obligation to incur certain capital expenditures to comply with the Ukrainian exploration license requirements. Under these license maintenance commitments the Company is required to commit to acquire and process seismic, conduct geophysical studies and drill exploratory wells on licensed fields according to the capital expenditure programmes. Although these commitments are not binding and may be modified based on results of exploration work, the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate fields may reach $57 million during 2011 to 2015. In respect of the acquisition of the North Makeevskoye field, the Company is committed to spending $3.0 million on the acquisition and processing of seismic as well as drilling six wells. Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to complete exploration work and substantiate the different capital expenditure schedule may result in termination of the license.

Office Space

The Company has a lease agreement for office space in Calgary, Canada which expires on October 31, 2014. The commitment is approximately $125,000 per year for the term of the lease.

21. Personnel expenses

(a) The aggregate payroll expense of employees and executive management was:

	Year ended December 31, 2010	Year ended December 31, 2009
Wages and salaries	$ 5,201,779	$ 1,606,007
Bonuses	1,035,888	-
Benefits and other personnel costs	1,312,267	724,985
Stock based compensation (i)	3,622,609	3,231,833
Total remuneration	$ 11,172,543	$ 5,562,825

Personnel expenses directly attributed to exploration activities have been capitalized and included in exploration assets. Personnel expenses directly attributed to oil and gas properties have been capitalized and included in property and equipment.

(b) Key management personnel include the following: the President and Chief Executive Officer, Chief Financial Officer, Vice Chairman, Executive Vice President, Vice President – Operations and Engineering, Vice President Investor Relations and Vice President Geosciences. Key management personnel compensation consists of the following:

(Stated in U.S. Dollars)

	Year ended December 31, 2010	Year ended December 31, 2009
Wages and salaries	$ 1,730,716	$ 980,333
Bonuses	1,035,888	-
Other long-term benefits	436,612	442,543
Stock based compensation (i)	1,845,436	1,652,642
Total remuneration	$ 5,048,652	$ 3,075,518

(i) Represents the amortization of stock based compensation associated with options granted as recorded in the consolidated financial statements.

22. Financial risk management

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

(a) 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. Interest rate risks on the Company's obligations are not considered material because the costs of the convertible debentures are fixed. Restricted cash is in instruments that are redeemable only upon completion of certain work commitments and therefore is subject to interest rate fluctuations.

(b) 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 includes $4,158,993 due from MENA with the balance of accounts receivable consisting predominately of receivables from other 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 as the funds are on deposit with major financial institutions.

In the 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 and the exposure to credit risk is approved and 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 statement of financial position.

(c) Market 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 Canadian dollar ("**CDN**") and Ukraine Hryvnia ("**UAH**") balances. At December 31, 2009, the Company's primary currency exposure related to Canadian dollar denominated working capital and cash balances. The following table summarizes in U.S. dollars the Company's foreign currency exchange risk for each of the currencies indicated:

	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 year 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).

(d) Liquidity risk

The Company monitors its liquidity position regularly to assess whether it has the resources necessary to fund planned exploration commitments on its petroleum and natural gas properties or that viable options are available to fund such commitments from operating cash flow, new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration and development company without sufficient internally generated cash flow to fund the exploration program, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required to retain concession licences, farm-out arrangements and securing new equity or debt capital.

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. The Company completed an equity offering in the second quarter of 2010 through an IPO on the WSE which raised gross proceeds of approximately $93 million. During the year ended December 31, 2010, the Company farmed out a 30% working interest in Syria Block 9 to MENA. The Company's current capital planning contemplates the pursuit of additional farm-out opportunities to raise cash and potentially reduce future capital expenditures, increasing debt levels and raising further equity depending on market conditions.

23. Related party transactions

The Company provides financial and accounting services, pursuant to a shared services agreement, to Jura, a public company in which the Company owns 6.4% of the outstanding common shares. For the year ended December 31, 2010, the Company charged fees and associated costs to Jura totalling $109,333 (December 31, 2009 – $2,393). At December 31, 2010, $27,371 (December 31, 2009 – $18,403) was due from Jura. Prior to November 2009 Jura provided those services to the Company. For the year ended December 31, 2009, the fees charged by Jura totalled $208,304 and at December 31, 2009, the Company owed $13,121. Two directors of the Company, Timothy M. Elliott and Norman W. Holton, are directors of Jura and Paul H. Rose, Chief Financial Officer of the Company is also the Chief Financial Officer of Jura.

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 37.5% is owned by Timothy M. 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 $523,032 (December 31, 2009: $343,200). There were no amounts due to Nemmoco in relation to these administrative services at December 31, 2010 or December 31, 2009.

The Company remains legally responsible for a guarantee issued in August 2007 (the "**Loon Guarantee**") to the Government of Peru regarding the granting of a license contract to a former subsidiary company, Loon Peru Limited. Loon Energy Corporation ("**Loon Energy**"), the parent Company of Loon Peru Limited, has begun the process to replace the Loon Guarantee. This process requires the formal approval of the Government of Peru which has not yet been obtained.

Loon Energy and the Company have entered into an indemnification agreement in respect of the Loon Guarantee. Loon Energy announced on October 25, 2010 that it will not proceed to the second exploration stage and therefore the maximum liability to the Company that may arise from the Loon Guarantee is based on the minimum work obligation for the first exploration phase. The first exploration minimum work program has been completed and the Company does not have a material exposure to the guarantee.

Loon Energy has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil. For the year ended December 31, 2010, these fees totalled $11,976. At December 31, 2010, Loon Energy owed $nil (2009 – $ nil) to Kulczyk Oil for these services. Certain expenditures of Loon Energy are paid for by Kulczyk Oil and Loon Energy reimburses Kulczyk Oil for these expenditures. As at December 31, 2010 Loon Energy owed $nil (2009 – $28,382) for these costs. Kulczyk Oil and Loon Energy are related as they have common directors and officers and the same principal shareholder.

The Company paid a $450,000 fee to KI for their assistance with the KUB-Gas acquisition. The Company paid $616,857 to KI for the interest on the convertible debenture. The Company also has service agreements with KI and Kulczyk Holdings S.A. ("**KH**") for ongoing administrative, acquisition and consulting services. During the year, the Company paid $210,000 and $90,000 to KI & KH respectively. No amounts were owed at December 31, 2010.

The above related party transactions were at exchange amounts agreed to by both parties.

Kulczyk Oil Ventures Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2010 and 2009
(Stated in U.S. Dollars)

24. Segmented information

The Company's reportable segments are organized by geographical areas and consist of Brunei, Syria, Ukraine and corporate.

As at December 31, 2010	**Brunei**	**Syria**	**Ukraine**	**Corporate**	**Total**
Total Assets	$ 91,704,835	$ 15,782,336	$ 76,724,543	$ 13,113,131	$ 197,324,845
For the year ended December 31, 2010					
Oil and gas revenue, net of royalties	$ -	$ -	$ 7,469,027	$ -	$ 7,469,027
Operating expenses:					
Operating expense	$ -	$ -	$ (4,127,127)	$ -	$ (4,127,127)
General and administrative	-	-	-	(9,375,777)	(9,375,777)
Acquisition costs, KUB-Gas	-	-	-	(1,372,200)	(1,372,200)
Acquisition costs, Triton	-	-	-	(197,828)	(197,828)
Stock based compensation expense	-	-	-	(3,673,420)	(3,673,420)
Depreciation	-	-	(2,564,877)	(176,753)	(2,741,630)
Finance income/(expense)					
Interest and other income	-	-	(333,596)	516,412	182,816
Unrealized gain /(loss) on investment	-	-	-	157,618	157,618
Interest expense and accretion	-	-	(54,790)	(4,404,087)	(4,458,877)
Gain on sale of assets	-	-	-	315,339	315,339
Impairment of oil and gas assets	-	-	-	193,106	193,106
Foreign exchange gain (loss)	-	-	(37,201)	(621,638)	(658,839)
Equity loss of associates	$ -	$ -	$ -	$ (225,973)	$ (225,973)
Earnings (loss) before tax	$ -	$ -	$ 351,436	$ (18,865,201)	$ (18,513,765)
Capital expenditures	$ 22,130,082	$ 1,903,577	$ 7,649,165	$ 309,144	$ 31,991,968

As at December 31, 2009	**Brunei**	**Syria**	**Ukraine**	**Corporate**	**Total**
Total Assets	$ 69,501,318	$ 10,575,123	$ -	$ 5,160,008	$ 85,236,449
For the year ended December 31, 2009					
Oil and gas revenue, net of royalties	$ -	$ -	$ -	$ -	$ -
Operating expenses:					
Operating expense	$ -	$ -	$ -	$ -	$ -
General and administrative	$ -	$ -	$ -	$ (4,625,604)	$ (4,625,604)
Acquisition costs, KUB-Gas	$ -	$ -	$ -	$ (1,490,235)	$ (1,490,235)
Acquisition costs, Triton	$ -	$ -	$ -	$ (2,526,650)	$ (2,526,650)
Stock based compensation expense	$ -	$ -	$ -	$ (3,231,833)	$ (3,231,833)
Impairment of oil and gas assets	$ -	$ -	$ -	$ (178,000)	$ (178,000)
Depreciation	$ -	$ -	$ -	$ (116,791)	$ (116,791)
Finance income/(expense)					
Interest and other income	$ -	$ -	$ -	$ 37,935	$ 37,935
Unrealized gain /(loss) on investment	$ -	$ -	$ -	$ (397,269)	$ (397,269)
Interest expense and accretion	$ -	$ -	$ -	$ (1,305,964)	$ (1,305,964)
Mark to market gain on derivative liability	$ -	$ -	$ -	$ 1,186,884	$ 1,186,884
Foreign exchange gain (loss)	$ -	$ -	$ -	$ 451,653	$ 451,653
Loss before tax	$ -	$ -	$ -	$ (12,195,874)	$ (12,195,874)
Capital expenditures	$ 6,577,505	$ 581,354	$ -	$ 414,541	$ 7,573,400