KULCZYK OIL VENTURES INC.

Management's Discussion and Analysis
For the three months ended March 31, 2011
(US Dollars)

This Management's Discussion and Analysis ("MD&A") for Kulczyk Oil Ventures Inc. ("KOV", "Kulczyk Oil", or "the Company") should be read in conjunction with the unaudited KOV condensed interim Consolidated Financial Statements for the period ended March 31, 2011 ("the Consolidated Financial Statements") and the December 31, 2010 annual consolidated financial statements. Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this document.

Management is responsible for preparing the MD&A, while the audit committee of the Board reviews the MD&A and recommends its approval by the Board.

In connection with the filings for the period ended March 31, 2011, this MD&A is filed in United States dollars ("US Dollars") which is the reporting currency of the Company. The condensed interim consolidated financial statements for March 31, 2010 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. Production and reserves are presented on a before royalties basis consistent with Canadian protocol reporting. This document is dated May 10, 2011.

In the Advisory section located at the end of this document, readers can find the definition of certain terms used in the disclosure regarding Oil and Gas Information, and Non-IFRS Measures as well as information on "Critical Accounting Estimates".

KULCZYK
OIL VENTURES

Kulczyk Oil Ventures Inc.
Management's Discussion and Analysis
For the period ended March 31, 2011
(US$, '000's, unless otherwise stated)

Overview

Kulczyk Oil is an international oil and gas exploration and production company with operations in Ukraine, Syria, and Brunei, and with management offices in Calgary, Alberta, Canada, Dubai, United Arab Emirates and in Warsaw, Poland. The Company has demonstrated its ability to source, negotiate and conclude agreements for exploration, development and production opportunities, and to mitigate risk as well as partially finance the expenditure commitments pursuant to these agreements via farm-out arrangements. Management intends to continue following this successful business model in developing future opportunities while it continues to develop existing oil and gas assets.

KOV has one direct wholly-owned subsidiary, Kulczyk Oil Ventures Limited ("**KOV Cyprus**"), three indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited **("KOV Brunei")**, Loon Latakia Limited **("Loon Latakia")** and KOV Borneo Limited ("**KOV Borneo**") and a 70% owned subsidiary, Loon Ukraine Holding Limited ("**Loon Ukraine**") as well as some other non-core investments.

- In Ukraine, the Company has an effective net interest of 70% in five natural gas and gas condensate licenses (four exploration licenses and one production license), four gas processing facilities, a drilling rig and other well servicing assets, and over 20 kilometres of main gas pipelines connected to the Ukrainian gas transportation infrastructure. Four of the five licenses currently produce natural gas and condensate.
- In Brunei, the Company holds:
  - a 40% working interest in the Brunei Block L production sharing agreement which gives the Company and the other parties thereto the right to explore for and, upon fulfillment of certain conditions, the right to produce oil and gas from Block L, a 2,220 square kilometre (550,000 acre) area covering certain onshore and offshore areas; and
  - a 36% working interest in the Brunei Block M production sharing agreement which gives the Company and the other parties thereto the right to explore for and, upon fulfillment of certain conditions, the right to produce oil and gas from Block M, a 3,011 square kilometre (744,000 acre) area covering certain onshore areas of Brunei to the south of Block L.
- In Syria, the Company holds a participating interest of 70% in the Syria Block 9 production sharing contract which provides the right to explore for and, upon fulfillment of certain conditions, to produce oil and gas from Block 9, a 10,032 square kilometre (2.48 million acre) area in northwest Syria. The Company has agreements to assign an aggregate of 25% in ownership interests to third parties which are subject to the approval of Syrian authorities, and which, if approved, would leave the Company with a remaining effective interest of 45% in Syria Block 9.
- The Company is listed on the Warsaw Stock Exchange ("**WSE**").

(US$, '000's, unless otherwise stated)

Operations Overview

UKRAINE

Background

On June 11, 2010, Kulczyk Oil completed the acquisition of a 70% ownership interest in KUB-Gas LLC (**"KUB-Gas"**), a Ukrainian registered company with 100% ownership interest in 3 exploration licenses and 1 production license, plus processing facilities and various well servicing assets. The investment in KUB-Gas is held through Loon Ukraine, a private entity incorporated in Cyprus. The Company also has a 70% interest in a 1,000 horsepower Canadian built drilling rig. An additional exploration license was acquired in December 2010.

As at March 31, 2011 the Company owns the following licenses in Ukraine.

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

The Company may produce gas and gas condensate under the exploration licenses in an amount up to ten percent of total estimated reserves and approved by the licensor, the Ministry for Environmental Protection of Ukraine, and may not exceed the cap during the exploration status. The Company can convert the exploration licenses into production licenses which allow unlimited production of gas and gas condensate over the terms of the license, which are generally 25 years. Management expects that the Company will be able to convert the exploration licences into production licences once this is necessary.

Update

Since acquiring KUB-Gas in June 2010:

- Proved reserves at December 31, 2010, net to KOV, have more than doubled to 29.5 Bcfe (4.9 MMboe) before royalties from 10.6 Bcfe (1.8 MMboe). Proved plus probable reserves at December 31, 2010, net to KOV, increased to 45.6 Bcfe (7.6 MMboe) before royalties from 18.2 Bcfe (3.0 MMboe).
- Production has averaged 6,051 Mcf per day (70% net 4,236 Mcf/day) for the first quarter of 2011.
- The M-19 exploration well, in the Makeevskoye field, was drilled in 2010 to a total depth of 2,060 metres encountering several potential gas bearing reservoirs. Wireline logging and evaluation identified gas pay across several reservoir zones and flowed natural gas during production testing at a rate of 5,000 Mcf per day (70% net = 3,500 Mcf/day) through a 10 mm choke. The well is expected to be tied-in late in the second quarter of 2011 at an initial gross production rate between 3,500 Mcf/d and 4,000 Mcf/d.
- The O-7 well, in the Olgovskoye field, was drilled in 2010. Wireline logging and evaluation identified more than 150 metres of gas pay across 38 reservoir zones. In the first quarter, the well produced approximately 1,828 Mcf/d of gas (1,280 Mcf/d net to KOV) and 35 bbl/d of condensate (25 bbl/d net to KOV).
- The O-8 well, about two kilometres southeast of the producing O-7 well in the Olgovskoye field, was drilled to a depth of 2,780 metres and wireline logging and evaluation showed up to 135 metres of gas pay in 35 reservoir zones. The well is cased and completion as a producing well is in progress with initial production expected in late 2011.

- Drilling of the O-9 well, about one kilometer northwest of the O-8 well, commenced on 5 March, 2011 and was completed and cased at the end of April. This is the second new well drilled in the Olgovskoye field since the Company acquired its interest in 2010 and is expected to go on production in Q3, 2011.
- Compressors were installed on two wells in the Vergunskoye field resulting in production increases of approximately 100%. The compressors increased the flowing pressure of the wells to enable production to flow into the sales pipeline. Kulczyk Oil is currently evaluating further expansion of compressors on its existing wells.
- The Company commenced a seismic survey of the Olgovskoye and Makeevskoye fields in the first quarter of 2011. The survey will be completed in the second quarter once the ground dries up after the spring melt.
- The Company is actively investigating ways to optimize facilities and enhance production, primarily focused in the Olgovskoye and Makeevskoye fields.
- The Company was awarded an additional exploration license in the North Makeevskoye field which is adjacent to the Makeevskoye and Olgovskoye licenses. The 19,050 hectare (47,073 acre) North Makeevskoye license was awarded to KUB-Gas in December 2010. The Company believes that the North Makeevskoye license is prospective for gas production from multiple zones within the Muscovian and Bashkirian sedimentary section.
- KUB-Gas applied for and on May 4, 2011, was approved for a loan of up to $40 million from the European Bank for Reconstruction and Development ("EBRD"). The proceeds of the loan are to be used to fund development of the licenses in Ukraine. The financing bears interest at variable rates, currently estimated by management to be approximately 6.9% per annum and increasing as revenues increase up to 13.7% per annum. The loan proceeds are expected to be advanced in two tranches, with $23 million being advanced in 2011 and the remaining $17 million being advanced once the Olgovskoye and Makeevskoye licenses are converted to production licenses. The loan balance outstanding is to be repaid in eleven equal semi-annual payments commencing in July 2012. Kulczyk Oil, as majority owner of KUB-Gas, has agreed to provide a guarantee for the entire amount of the loan facility outstanding from time to time. The loan is subject to finalization of the loan agreement and related security agreements, which is expected to occur in May 2011.

BRUNEI - BLOCK L

Background

Kulczyk Oil, through a wholly-owned subsidiary of Kulczyk Oil, and QAF Brunei Sdn. Bhd. ("**QAF**") (collectively, the "**Contractor**") have a Production Sharing Agreement ("**Block L PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**"). The Block L PSA granted the Contractor the right to explore for and produce oil and gas from Block L which comprises approximately 2,220 square kilometres of both onshore and shallow offshore areas of northern Brunei. The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA divided into two phases, Phase 1 and Phase 2. In 2008, Nations Petroleum (SE Asia) Limited ("**Nations**") was assigned a 50% working interest in the Block L PSA and in 2010, AED Oil Limited ("**AED**") acquired Nations and therefore their 50% operating interest in Brunei Block L.

In 2010, two wells, Lukut-1 and Lempuyang-1 were drilled to depths of 2,336 meters and 3,220 meters respectively. Both Lukut-1 and Lempuyang-1 encountered hydrocarbon shows in multiple horizons. Two main zones of interest with an aggregate gross thickness of 56.4 metres were encountered during the drilling of the Lempuyang-1 well. In 2010, the joint venture partnership conducted an airborne gravity and aeromagnetic survey over Block L covering about 3,000 square kilometres and is continuing to interpret the results.

As part of their acquisition, 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 is funding 40% of all expenditures thereafter. Phase 1 is now complete and the Company believes that the Contractor has exceeded its obligations with respect to work commitments and minimum spend requirements.

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

Update

During the current quarter, testing of two zones at Lempuyang-1 was started, and despite gas flowing to surface, continued mechanical issues resulted in the testing programme being curtailed due to safety concerns associated with gas flow into the well. The data which was obtained during the testing helps support the optimism of the joint venture partners as to the prospectivity of the Lempuyang prospect and surrounding acreage. Lempuyang-1 drilling and testing results will now be integrated into the existing database and used for future assessment of the updip area within the eastern part of Block L where a contingent 3D seismic programme is currently being considered.

The Lukut-1 well remains suspended pending agreement amongst the joint venture programs regarding testing the well.

The Company is planning a seismic acquisition program in the West Jerudong field as well as in the area around the Lempuyang-1 well. Both programs will provide direction for future drilling prospects and will meet the remaining Phase 2 seismic commitment.

As at March 31, 2011, the Company has spent $76.0 million for its share of expenditures on Block L.

BRUNEI - BLOCK M

Background

In 2009, the Company acquired a 36% interest in the Brunei Block M Production Sharing Agreement ("**Block M PSA**") through the acquisition of Triton Hydrocarbons (Pty) Ltd. ("**Triton Hydrocarbons**"), a private Australian company. Block M covers an onshore area of Brunei of approximately 3,011 square kilometres (744,000 acres) immediately south of the Company's interest in Block L.

The Block M exploration period is 6 years from the date of the Block M PSA, August 27, 2006, and is divided into Phase 1 and Phase 2 which can run concurrently. The Company and its partners in Block M have met all of the commitments for seismic acquisition and reprocessing for both Phase 1 and Phase 2 by acquiring and processing 118 square kilometres of 3D and 60 kilometres of 2D seismic and conducting a 136 square kilometre 3D seismic survey in the northern part of Block M in 2010. The survey area covered the northern extension of the prospective trend identified in the 2009 survey. Interpretation is underway and results are expected in the second quarter of 2011. Two wells were drilled in 2010. Mawar-1 and Markisa-1 were drilled to depths of 1,292 meters and 1,300 meters respectively and both wells encountered hydrocarbon shows.

The only remaining commitment for Phase 1 is a well which must be drilled to a minimum depth of 2,000 meters.

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

Update

The Company, along with the joint venture partners, is planning to drill two exploratory wells in Block M starting in the third quarter of 2011. Testing of the two wells drilled in 2010 is currently planned to occur in 2012 after the current year drilling program. In the first quarter of 2011, the Company, along with the joint venture partners, is continuing to interpret the 2D and 3D seismic surveys conducted in 2010.

To date, the Company has spent $17.5 million at Block M.

SYRIA

Background

Through a wholly-owned subsidiary (Loon Latakia), Kulczyk Oil holds a participating interest in a Contract for the Exploration, Development, and Production of Petroleum ("**PSC**") between the Government of the Syrian Arab Republic, Syrian Petroleum Company ("**SPC**") and the Company. The Contract became effective on November 29, 2007. This agreement gives the Company the right to explore for and produce oil and gas from Block 9, a 10,032 square kilometre block in north- western Syria. Under the terms of the PSC, the Company has a first phase exploration period of four years during which it has committed to acquire 350 square kilometres of 3D seismic and drill two exploration wells. The Company has the ability to obtain license extensions in phases by committing to performing additional work on an agreed basis.

At the effective date of the Contract, the Company held a 100% participating interest. By a farm-out agreement dated September 1, 2010, the Company agreed to assign a 30% ownership in Syria Block 9 to MENA Hydrocarbons (Syria) Ltd. ("**MENA**") effective June 17, 2010. The assignment of the 30% ownership interest to MENA was approved by Syrian authorities in March, 2011. 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 $2.0 million and (iii) pay 60% of the authorized drilling costs of the first exploratory well. MENA has paid all amounts due for the historical costs and the remaining amounts due for funding the bank guarantee and the first exploratory well are due in late May, 2011.

The Company's remaining 70% participating interest in the Block 9 Contract is subject to economic and beneficial interests held by Triton Hydrocarbons pending formal approval by the Syrian authorities of the assignment of a 20% participating interest in the Contract to Triton Hydrocarbons.

If approval from the Syrian authorities in respect of the Triton Hydrocarbons interest is not obtained, Triton will be issued an amount of equity in Loon Latakia which holds the Company's interests in Block 9 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 its share 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. The aggregate effect of this assignment, along with the Triton and MENA agreements, leaves the Company with an effective interest in Block 9 of 45%.

The Company initially posted a guarantee in the amount of $7.5 million, an amount which represents the minimum exploration expenditure level specified in the PSC, with the amount of the guarantee reduced to $6.76 million in November 2009 to recognize the fulfillment of specified work commitments. As a result of the MENA farm out, the Company's share of the bank guarantee was reduced to $4.7 million. On January 25, 2011 the Company was refunded $1.75 million from the bank guarantee, reflecting fulfillment of work obligations.

The Phase 1 seismic acquisition program was completed in the second quarter of 2010 and resulted in the acquisition of a 420 square kilometre survey.

Update

The Company, along with the joint venture partners, is planning to commence drilling the first exploratory well in the second half of 2011, immediately followed by the second exploratory well. The Company, as operator, is actively planning the drilling program while keeping a close watch on the political situation in the country. The Company considers the safety of its employees and contractors paramount and will consider delaying the drilling program if necessary.

The Company's portion of these expenditures as at March 31, 2011 was $5.2 million, net of $2.9 million of historical costs reimbursed by MENA.

(US$, '000's, unless otherwise stated)

NIGERIA

On May 6, 2011, the Company announced that it joined the Neconde Energy Limited ("Neconde") consortium. On April 29, 2011, Neconde entered into an Agreement for Assignment (the "AFA") with the Shell Petroleum Development Company of Nigeria Ltd, Total E&P (Nigeria) Ltd, and Nigerian Agip Oil Company Ltd pursuant to which Neconde will acquire a 45% participating interest in Oil Mining Licence 42 ("OML 42"), a large block containing previously-discovered oil fields in the Niger Delta area of Nigeria. The remaining 55% participating interest in OML 42 is held by the Nigerian National Petroleum Company.

Completion under the AFA is subject to a number of regulatory approvals and commercial agreements which are expected over the next 20 weeks.

Neconde's shares are held by a consortium of companies (the "Neconde Consortium"), which includes wholly-owned subsidiaries of each of Kulczyk Oil and Kulczyk Investments S.A. ("KI"), the major shareholder of Kulczyk Oil. The Company would be the Neconde Consortium's 'Technical Partner' and through its indirect wholly-owned special purpose vehicle, would hold 20% of Neconde's ordinary issued equity, thereby giving the Company an effective indirect 9% interest in OML 42.

KOV would enter into a Technical Services Agreement with Neconde through which, it will provide Neconde with certain technical services related to the day-to-day exploration, development and production of OML 42. The Company and KI will be jointly entitled to appoint both the Chief Executive Officer and Chief Financial Officer of Neconde.

OML 42 is a 814 square kilometre lease awarded in 1962. License expiry is currently 2019. Initial production commenced in 1969 at the Egwa Field, one of five productive fields within the license area, with a peak production of over 100,000 boe/d in 1974, with total production from all fields on the license peaking at approximately 250,000 boe/d. Production, which was primarily oil, continued until the first part of 2005 when the producing fields were shut-in due to security issues in the Niger Delta area. Production from OML 42 during the 2004 calendar year (the last full year of production prior to shut-in) was more than 50,000 bbl/d and more than 80 Mmcfd natural gas.

RPS Energy, an independent engineering consulting firm, reviewed the information made available to Neconde at the time of the transaction in an attempt to estimate the remaining potential on OML 42. Utilising historic production data from the producing fields and taking into account certain portions of the Nigerian National Standard (NNS) reserve submissions, RPS estimates that the remaining recoverable oil resource potential on OML 42 net to Neconde's 45% interest are as follows:

	Net to Neconde (45%)	Net to KOV (9%)
RPS Low Case	57.3 million barrels	11.5 million barrels
RPS Mid Case	126 million barrels	25.2 million barrels
RPS High Case	232 million barrels	46.4 million barrels

KOV believes there is considerable upside to these estimates as there are additional substantial quantities of gas and associated liquids demonstrated in the existing fields. There is also a substantial inventory of undrilled prospects and leads that have been mapped on the license.

OML 42 is currently producing approximately 20,000 bbl/d from one of the 5 historically-productive fields which has recently been re-activated.

KI will provide the Company with bridge financing in respect of the Company's share of Neconde's acquisition costs of OML 42. The bridge financing will bear interest at a rate of 10% per annum. Until such time as the Company raises the funds to repay KI's bridge financing, Kulczyk Oil will hold its shares in Neconde on trust for KI.

Once, and to the extent that, the Company raises those funds to repay KI, the trust over the Company's shares in Neconde will be extinguished. Only at that point would Kulczyk Oil hold a full legal and beneficial interest in Neconde (to the extent it has repaid KI for the bridge financing).

To the extent that, by 31 October 2011, the Company has not raised funds to repay KI for its bridge financing, the trust arrangement will be terminated and KI will become fully entitled (legally and beneficially) to the corresponding proportion of the Company's shares in Neconde.

The Neconde Consortium is majority Nigerian owned and includes a significant carried interest held by VP Global, an entity representing the local community from the area in which OML 42 is located.

Investments

Jura Energy Corporation

The Company holds a 6.4% shareholding in Jura.

Triton Petroleum Pte Ltd

With the purchase of Triton Hydrocarbons in 2009, the Company received 50% of the common shares of Triton Petroleum – a private company incorporated in Singapore. As a result of a share issuance by Triton Petroleum in 2010, the Company now has an approximate 30% investment in Triton Petroleum. A principal asset of Triton Petroleum is a 20% beneficial interest in the production sharing agreement covering Block 9 in Syria to be assigned to Triton Petroleum by the Company subject to obtaining the consent of the Syrian government.

Mauritania International Petroleum Inc. ("MIPI")

The Company acquired a 35% interest in MIPI as part of the Triton Hydrocarbons acquisition. MIPI holds a 100% interest in four contiguous licenses located offshore Mauritania, but is currently not active.

Significant Factors Affecting the Company's Results of Operations

The Company's activities to date have focused on the evaluation of various exploration projects including the acquisition of the prospects in Brunei and Syria, all of which are in the pre-production phase and thus, have yet to generate any production revenues or incur any operating expenses. The Company also expended considerable effort in evaluating and then completing the acquisitions of Triton Hydrocarbons and KUB-Gas, as well as completing the IPO on the WSE in 2010. The acquisition of KUB-Gas in June 2010 resulted in production revenues and operating expenses being generated.

In 2011, the Company has been focused on enhancing production in Ukraine, securing the EBRD loan and negotiating the acquisition in Nigeria.

General and administrative expenses incurred by the Company are generally expensed and are incurred to provide support for the evaluation and exploration activities described above. The Company expensed acquisition costs incurred in relation to the acquisition of Triton Hydrocarbons, KUB-Gas and Neconde.

Significant Changes in the Company's Financial or Trading Positions

Since the end of December 31, 2010, there have been no significant changes in the financial and trading position of the Company.

The Company announced that it plans to seek a listing of its common shares on the London Alternative Investment Market ("AIM") and that it intends to raise new equity capital there in Autumn 2011. Detailed plans and timing of the AIM listing and further information about the amount of capital expected to be raised in the proposed financing will be released at a later date once this information has been determined.

Significant Market Trends

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

Key Financial Metrics, ($'000's, except for per share amounts)

	Period ended March 31,			
	2011		2010	
	'000's other than share data			
Sales revenue, net of royalties	$	3,849	$	-
Production expense	$	(1,167)	$	-
General and administrative	$	(1,459)	$	(1,507)
Acquisition costs	$	-	$	(732)
Stock based compensation	$	(665)	$	(530)
Interest and accretion	$	(660)	$	(1,503)
Net loss	$	(1,889)	$	(4,135)
Net loss per share - basic and diluted	$	(0.00)	$	(0.02)
Weighted average number of shares		402,112,094		200,491,546

For the period from January 1, 2010 to June 11, 2010, all of the Company's oil and natural gas projects were in the exploration, appraisal and development phases. Accordingly, for this period, the Company did not have any production or production revenues from these assets. On June 11, 2010, the Company acquired an effective 70% interest in KUB-Gas which generates production revenue in Ukraine. The Company's activities outside Ukraine all continue to be exploration and appraisal activities. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price.

Oil and Gas Netback for the three months ended March 31, 2011

	Gas		Oil		Total	
Sales volumes (net to KOV) (Mcf/d;bbl/d;Mcfe/d)		4,232		38		4,459
Days in period		90		90		90
Sales volumes (net to KOV) (Mcf;bbl;Mcfe)		380,918		3,400		401,318
Revenue ($/Mcf;$/bbl;$/Mcfe)	$	8.03	$	84.53	$	8.34
Royalty expense ($/Mcfe)						(1.72)
Royalty as a % of revenue						*20.6%*
Production costs ($/Mcfe)						(1.85)
Netback					$	4.77

General and Administrative

General and administrative ("**G&A**") costs for the three months ended March 31, 2011 were $1,459 compared to $1,507 for the respective 2010 year, a small decrease.

Acquisition Costs

The Company incurred costs in 2010 in respect of both the KUB-Gas acquisition and the Triton Hydrocarbon's acquisition.

Stock based compensation

Stock based compensation for the three months ended March 31, 2011 was $665 (2010 - $530). The increase in expense is due to the additional options granted in May 2010 and March 2011.

Depletion and Depreciation ("D&D")

For the three months ended March 31, 2011, D&D increased to $1,414 compared to $34 in 2010 due to the KUB-Gas acquisition. D&D in 2010 consisted only of depreciation on office assets.

Interest expense and accretion

The issuance of convertible debentures in the latter half of 2009 and early 2010 resulted in interest expense of $568 and $1,503 being recorded in the periods ended March 31, 2011 and 2010, respectively. Interest and accretion decreased for the periods ended March 31, 2011 compared to March 31, 2010 as the Kulczyk Investments convertible debt was converted to common shares during Q2 2010.

Summarized Balance Sheet ($'000's)

	As at March 31, 2011	As at December 31, 2010
Total current assets	$ 16,455	$ 18,454
Total non-current assets	$ 181,215	$ 178,871
Total assets	$ 197,670	$ 197,325
Total current liabilities	$ 15,063	$ 14,114
Total non-current liabilities	$ 4,974	$ 4,992
Total share capital	$ 192,615	$ 192,520
Total equity	$ 177,633	$ 178,219

Total assets

Total assets as at March 31, 2011 were $197,670 unchanged compared to $197,325 as at December 31, 2010.

Total Liabilities

Total liabilities as at March 31, 2011 were $20,037 compared to $19,106 as at December 31, 2010 due to the accretion on the convertible debenture and timing of current liabilities.

Summarized Cash Flow ($'000's)

	Period ended March 31, 2011	2010
Net cash used in operating activities	$ (3,675)	$ (3,541)
Net cash provided by financing activities	$ 34	$ 11,112
Net cash used in investing activities	$ (17)	$ (1,909)

Operating Activities

Net cash used in operating activities during 2011 increased from the prior year as increased cash flow from natural gas production in the Ukraine was offset by increases in working capital.

Investing Activities

Net cash used in investing activities decreased in 2011 compared to 2010 as an increased capital expenditure program resulting from the additional assets in Ukraine and Block M in Brunei as well as the exploration programs in Brunei Block L and Syria was offset by the return of restricted cash held for commitments in Syria.

Financing Activities

Net cash from financing activities decreased in 2011 compared to 2010 due to the receipt of funds from the convertible debentures issued in 2010.

Summary of Quarterly Data

The following table sets forth selected quarterly financial information for the most recent eight financial quarters:

	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Oil and gas revenue	$ 4,833	$ 4,374	$ 3,374	$ 1,198
Loss for the period	$ (1,889)	$ (2,779)	$ (3,727)	$ (7,616)
Per share - basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)

	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Oil and gas revenue	$ -	$ -	$ -	$ -
Loss for the period	$ (4,135)	$ (6,496)	$ (3,874)	$ (912)
Per share - basic and diluted	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.01)

Oil and gas revenue in Q1, 2011 showed an increase over Q4, 2010, as Q1, 2011 had both higher prices and higher production volumes than Q4, 2010. The loss in Q1, 2011 includes netback from operations of $2,682.

Oil and gas revenue in Q4 2010 showed an increase over Q3 2010 due to both higher prices and higher production volumes.

(US$, '000's, unless otherwise stated)

The net loss in Q1 2011 is lower than the net loss for Q1 2010 due to the operating income from production in 2011 and lower interest expense due to a lower debt balance. Q1 2010 also included acquisition costs for both KUB-Gas and Triton Hydrocarbon.

The loss for Q4 2010 includes $2,892 of G&A costs, $3,641 of production revenue after royalties, $2,707 of production expenses and $829 of accrued interest expense. Operating expenses in Q4, 2010 increased over the previous quarter due to higher production and increased repair and maintenance activity.

The loss for Q3 2010 includes costs related to the closing of the KUB-Gas acquisition and IPO listing as well as $2,828 of production revenue net of royalties and $1,056 of production expenses.

The net loss for Q2 2010 included acquisition costs associated with KUB-Gas and Triton Hydrocarbons of $388, interest on the convertible debentures of $1,561 which was consistent with Q1 2010, stock based compensation of $1,699 which increased $1,169 from Q1 2010 due to the issuance of stock options in May 2010, foreign exchange losses of $1,337 which increased $1,233 from Q1 2010 due to the IPO proceeds being received in Polish Zlotys, and increased G&A expense compared to Q1 2010 due to bonuses paid

The net loss for Q1 2010 included acquisition costs associated with KUB-Gas and Triton Hydrocarbons of $732, interest on the convertible debentures of $1,503, stock based compensation of $530, foreign exchange losses of $104 and increased G&A expense that relating to the purchase of Triton Hydrocarbons.

Capital Expenditures

During the three months ended March 31, 2011, the Company incurred $4.1 million of capital expenditures on exploration and evaluation assets and on property plant and equipment, including costs incurred on the following projects:

- the drilling of the O-8 and O-9 wells and development work on the take-away pipeline at M-19 in Ukraine;
- the development of the upcoming drilling program in Syria;
- the testing of Lempuyang-1, including the cost overruns arising from the problems encountered during testing at Block L in Brunei;
- the processing of the seismic program conducted in 2010 at Block M in Brunei.

The Company's assets in Brunei and Syria, and certain assets in Ukraine are in the exploration and evaluation stage and consist of expenditures incurred on wells and seismic acquisition and processing for which technical feasibility and commercial viability of the underlying property has yet to be determined. Exploration and evaluation assets are not subject to depletion and depreciation. Capitalized costs of the Company's exploration and evaluation assets are as follows:

	As at March 31, 2011	As at December 31, 2010
Brunei		
Block M	$ 17,518	$ 17,421
Block L	75,979	75,952
Total Brunei	93,497	93,373
Syria, Block 9	5,197	5,078
Ukraine	7,424	3,566
	$ 106,118	$ 102,017

Debt and Convertible Debt

Kulczyk Investments S.A. ("KI") Convertible Debenture

Between September 2009 and March 2010, the Company drew a total of $20 million on an unsecured convertible debenture issued to KI at an interest rate of 7.16%. The full balance of the principal was converted to shares by the end of July 2010 and the accrued interest was paid in cash.

Tiedemann Investment Group Convertible Debenture

As partial consideration for the Triton Hydrocarbons acquisition, the Company issued a $10,010 convertible debenture to TGEM Asia LP, Tiedemann Global Emerging Markets LP and Tiedemann Global Emerging Markets QP LP (collectively, "**TIG**") in exchange for the $10,010 in convertible notes which TIG previously held in Triton Hydrocarbons.

This convertible debenture is secured by a floating charge on all of the Company's present and after-acquired property, bears interest at a rate of 7.16% which is compounded semi-annually and matures on August 12, 2011. The debenture is convertible to Kulczyk Oil common shares at $0.5767 per share. In September 2010, the Company paid $729 of interest in cash to the debenture holders, being the accrued interest to September 15, 2010.

Share Data

The Company is authorized to issue an unlimited number of common shares of which 402,303,330 common shares and 35,459,333 options to purchase common shares were outstanding as at March 31, 2011. There has been no change to the number of common shares nor the number of options since March 31, 2011.

The Company is also authorized to issue an unlimited number of preferred shares. No preferred shares are issued or outstanding.

The Company completed the Initial Public Offering on May 22, 2010 which resulted in 166,394,000 common shares being issued for gross proceeds of PLN 314.5 million at PLN 1.89 per share (approximately $93 million at $0.56 per share). The Company's shares were listed for trading on the WSE on May 25, 2010. Approximately 1.2 million Kulczyk Oil shares were purchased and returned to the Company's treasury and cancelled pursuant to market stabilization activities undertaken in accordance with the Company's underwriting agreement.

On May 25, 2010, the parties to the KI debenture agreement agreed to convert approximately $14.4 million of principal outstanding under the debenture to 25.0 million shares. In July 2010, the remaining principal outstanding of approximately $5.6 million was converted into 10,086,842 shares and the interest accrued to the conversion date was paid in cash.

In 2011, 200,000 options were exercised at an average price of $0.17 per share.

(US$, '000's, unless otherwise stated)

Summary of common shares outstanding:

	Number of Shares	Carrying amount
Balance, Dec 31, 2009	200,491,549	$ 84,727
Issued pursuant to the initial public offering	166,394,000	93,053
Share issue costs	-	(6,539)
Repurchased pursuant to stabilization activities	(1,219,061)	(608)
Issued on conversion of convertible debentures	35,086,842	20,000
Transfer equity portion of convertible debt	-	1,389
Options exercised	1,350,000	498
Balance, December 31, 2010	402,103,330	$ 192,520
Options Exercised	200,000	95
Balance, March 31, 2011	402,303,330	$ 192,615

KI's ownership at March 31, 2011 was approximately 49.8% of the total number of Kulczyk Oil Shares issued and outstanding.

The following table summarizes information about common share purchase options outstanding and exercisable at March 31, 2011:

Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$ 0.53	500,000	500,000	0.32
$ 0.73	1,830,000	1,830,000	0.59
$ 0.73	2,460,000	2,460,000	1.30
$ 0.42	475,000	475,000	2.51
$ 0.50	75,000	75,000	2.88
$ 0.47	1,660,000	1,660,000	3.12
$ 0.69	10,913,333	7,275,555	3.46
$ 0.62	15,734,000	5,244,667	4.15
$ 0.62	282,000	94,000	4.52
$ 0.60	1,530,000	510,000	4.96
$ 0.64	35,459,333	20,124,222	3.47

In the second and fourth quarters of 2010, the Company granted 15,834,000 and 522,000 share purchase options, respectively, with an exercise 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 vested one-third immediately, and one-third on each of the first and second anniversary of the grant date.

In the first quarter of 2011, the Company granted 1,530,000 share purchase options with an exercise price of $0.60 per share to a director and to certain employees of Kulczyk Oil. These share purchase options have a five year term and vested one-third immediately, and one-third on each of the first and second anniversary of the grant date.

As at the date of issuing this report, the following are changes to executives and officers shares owned and options granted since December 31, 2010: one officer exercised 200,000 options.

Risk Management and Financial Instruments

The Company and its business, future prospects, financial condition, operations are impacted by risks that are categorized as financial and market risks, operational risks and safety, environment and regulatory risks. The Company takes a proactive approach to identifying and mitigating risks, but occasionally unforeseen issues arise and must be handled urgently.

Financial and Market Risk

Financial and market risks include interest rate risk, credit risk, currency, and commodity price risks.

Interest rate risk

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

Credit risk

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

Accounts receivable as at March 31, 2011 includes approximately $2 million due from MENA with the balance of accounts receivable consisting predominately of receivables from joint venture partners that are anticipated to be applied against future capital expenditures. In addition, the Company has receivables pertaining to the sales of its production in Ukraine, commodity taxes recoverable from the federal government of Canada and interest earned on restricted cash deposits for which credit risk is assessed as being low.

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

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

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

Currency risk

The Company is exposed to risks arising from fluctuations in currency exchange rates between the Canadian dollar, Australian dollar, Polish zloty, Ukraine Hryvnia, Syrian Pound and the United States dollar. At March 31, 2011 the Company's primary currency exposure related to Canadian dollar ("CDN") and Ukraine Hryvnia ("UAH").

(US$, '000's, unless otherwise stated)

	March 31, 2011	March 31, 2011
	CDN	UAH
Cash and cash equivalents	$ (69)	$ 5,857
Accounts receivable	63	1,170
Prepaid expenses	49	493
Accounts payable and accrued liabilities	(269)	(7,128)
Net foreign exchange exposure	$ (226)	$ 392

For the period ended March 31, 2011, 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 $22 respectively. Earnings are not impacted by fluctuations in the Ukraine Hryvnia as translation gains and losses are included in other comprehensive income/(loss).

Commodity Price Risk

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

Operational Risk

The Company's ability to operate, generate cash flows, complete projects and find reserves is dependent on general market and business conditions, the ability to obtain and maintain cost effective financing to meet the Company's commitments and execute on planned programmes, environmental and regulatory matters in multiple jurisdictions, unexpected cost increases, availability of equipment, supplies and labour, availability of pipeline capacity and reservoir quality. Failure to acquire or find additional reserves will negatively impact the Company's ability to grow.

To mitigate these risks, the Company evaluates projects for financial, geological and engineering risk and mitigation plans are developed, including a comprehensive insurance program.

Safety, Environmental and Regulatory Risk

The Company is engaged in relatively high risk activities. The Company is committed to both safety in the operations and to preserving and protecting the environment. The Company fully complies with or exceeds all government regulations and industry standards in the countries of operation, however operations are subject to regulation and intervention by governments that can affect exploration, production and abandonment of fields and licenses. Rights and licenses can be cancelled, expired or expropriated and regulations can change. Certain licenses have restrictions which may not be removed on a timely basis.

Some areas in which the Company operates are politically and economically unstable and the assets and operations may be affected by changes in government policy, social instability or other political or economic developments outside the control of the Company.

Contingency plans are in place to ensure a timely response to a safety or environmental event and a security program is in place to protect the Company's assets and staff.

Fair value

The carrying value of the Company's financial assets and liabilities approximate their fair values due to their demand nature or because of their relatively short term to maturity. The investments in Jura and Karl Thomson Holdings Ltd are recorded at fair value based on the quoted market prices for the shares (level 1).

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 three months ended March 31, 2011, the Company charged fees and associated costs to Jura totalling $22 (March 31, 2010 – $2). At March 31, 2011, $nil (December 31, 2010 – $2) was due from Jura. 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 three months ended March 31, 2011, the fees totalled $156 (2010 - $131). There were no amounts due to Nemmoco in relation to these administrative services at March 31, 2011 or December 31, 2010.

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 of the license contract and therefore the maximum liability to the Company that may arise from the Loon Guarantee is based on the first exploration phase. The first exploration minimum work program has been completed and the Company does not believe it has 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 three months ended March 31, 2011, these fees totalled $3 (2010 – nil). There were no amounts due from Loon for administrative services at March 31, 2011 or December 31, 2010. Certain expenditures of Loon Energy are paid for by Kulczyk Oil and as at March 31, 2011 Loon Energy owed $1 (December 31, 2010 – $3) for these costs. Kulczyk Oil and Loon Energy are related as they have some common directors and officers and the same principal shareholder.

The Company has agreements for ongoing corporate and advisory services to be provided to the Company by both Kulczyk Holdings S.A. ("**KH**") and KI. The Company paid $105 in fees to KI for services provided and $45 in fees to KH for services provided. No amounts were paid in the comparative period. The Company owed no amounts to either KI or KH at March 31, 2011 or December 31, 2010.

The above related party transactions were at exchange amounts agreed to by both parties which approximate fair value.

Working Capital Statement

The Company has consolidated working capital of $1,392 as at March 31, 2011 (December 31, 2010: $4,340) with an additional $3,041 posted as cash security for a bank guarantee related to Syria (December 31, 2010: $3,041). Included in the working capital at March 31, 2011 is the balance outstanding under the TIG debenture of $9,430 (December 31, 2010: $9,042). The balance of the TIG convertible debenture outstanding at March 31, 2011 is included in current liabilities as the debenture holder has the right to convert to common shares at any time up to the maturity date in August 2011. Upon maturity, the debenture holder has the option to elect settlement in cash or to convert the remaining balance outstanding to common shares. The Company does not know if the debenture holders will settle in cash or convert to common shares.

The Company believes that its cash resources at March 31, 2011 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's current capital planning contemplates the pursuit of additional farm-out opportunities to raise cash, the reduction or deferral of capital expenditure plans, additional debt facilities should they be available on terms satisfactory to the Company, and the raising of further equity in 2011 depending on market conditions. The loan agreement between KUB-Gas and the EBRD eliminates the need for the Company to contribute further capital to fund its share of KUB-Gas's exploration and development activities, and in fact will allow for shareholder loan advances made by the Company to KUB-Gas to be repaid thus providing funding that can be used in the Company's other activities.

Since commencement of activities in the international oil and gas business, the Company has relied on regular injections of new equity to fund its operations and capital expenditure programs as well as farm-out agreements under which a portion of the historical costs incurred have been returned to the Company and a portion of the future capital commitments are assumed by the new partner. The Company has successfully raised new equity when required in the past, and intends to raise new equity in the future.

Liquidity and Capital Resources

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

The Company monitors its liquidity position regularly to assess whether it has funds necessary to complete planned exploration commitments and programs on its petroleum and natural gas properties or that viable options are available to fund such commitments from new equity issuances or alternative sources of financing such as farm-out agreements. However, as an exploration company at an early stage of development without sufficient internally generated cash flow to completely fund the Company's exploration and development projects, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely and /or cost effective basis, or that actual exploration expenditures may exceed those planned. Operating cash flow has historically been, and continues to be negative, and consists of net production revenues and expenses incurred and G&A costs in the normal course of the Company's ongoing operating activities. Economic factors affecting the Company's cash flow required for operations and for investments in accordance with the Company's consolidated statement of cash flows include fluctuations in foreign currency exchange rates. To date, the Company has raised equity funds denominated in Canadian dollars and Polish Zlotys, however exploration expenditures are incurred primarily in United States dollars, and therefore currency exchange rates have an ongoing impact on the Company's cash flows. Fluctuations in foreign currency exchange rates between United States dollars and other currencies, primarily the Canadian dollar resulted in a foreign exchange loss of $42 for the period ended March 31, 2011. The Company also has debt consisting of one convertible debenture, however the interest rate on the debenture is fixed and will therefore not be affected by changes in prevailing rates.

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

On an ongoing basis, the Company may utilize various sources of funding to finance its capital expenditure program: internally generated funds, farm-out arrangements, debt where appropriate, new equity issues if available on favourable terms, and asset sales. The Company's capital and operating expenditures incurred to date have been funded predominantly through issuances of equity, and more recently, through debt provided by convertible debentures, and the MENA farm-out agreement. Future borrowing requirements will be assessed on an ongoing basis. When financing corporate acquisitions, the Company may also assume certain future liabilities. Equity funds raised by the Company are transferred to operating subsidiaries to fund operating activities and capital expenditures when required; there have been no legal or economic restrictions experienced by the Company to date for such cash transfers. There are no restrictions on the use of the Company's capital resources that could materially affect, directly or indirectly, its operations or activities, and the Company has no covenants to debt agreements which could restrict its operations or activities.

To ensure security and the preservation of capital, KOV's investment policy for cash that is surplus to immediate requirements is to invest such funds in instruments issued by major chartered banks that are rated "triple A", or its equivalent by independent rating agencies.

Commitments

The Company's commitments are all in the ordinary course of business and include the work commitments for Brunei Block L, Brunei Block M, Syria Block 9 and Ukraine.

Brunei Block L

The Brunei Block L PSA provides for an exploration period of six years from the date of the Brunei Block L PSA divided into two phases, Phase 1 and Phase 2, each of which was initially for a period of three years, with Phase 2 expiring on August 27, 2012.

The work commitment for Phase 1 under the Block L PSA consists of reprocessing at least 1,500 kilometres of seismic data (to the extent that it is capable of being reprocessed), acquiring 350 square kilometres of 3D seismic, drilling two wells each to a depth of at least 2,000 metres and conducting $4.5 million of additional work, agreed to with PetroleumBRUNEI. The minimum expenditure requirement specified in the PSA for the Phase 1 exploration period was $25.0 million.

As at December 31, 2010, all existing seismic data has been reprocessed and the 3D seismic obligation for Phase 1 has been fulfilled, and two wells each to a depth of 2,000 metres have been drilled. The Company incurred expenditures on an airborne gravity and aeromagnetic survey and in 2011, will incur further expenditures to interpret the results of the survey as well as drill two exploratory wells. This project is expected to partially fulfill the commitment for $4.5 million of additional work.

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 kilometres of onshore 2D seismic data and 500 kilometres of offshore 2D seismic data, (ii) acquire and process not less than 150 square kilometres of offshore 3D seismic data and (iii) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Block L joint venture parties are required to spend a minimum of $16 million during Phase 2. Phase 2 continues until August 27, 2012. The Company intends to seek approval to convert the offshore seismic obligation to an onshore seismic obligation.

As part of their acquisition, 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 is funding 40% of all expenditures thereafter. 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 the date of the report, 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 10% of its share of profit oil as defined in the Brunei PSA which has not been accrued in the financial statements as there is not yet production from Block L.

Brunei Block M

The Block M Exploration period is 6 years from the date of the Brunei Block M PSA, August 27, 2006, and is divided into Phase 1 (five years) and Phase 2 (two years) which may run concurrently. 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 kilometres of seismic data to the extent that the data is capable of being reprocessed; (ii) acquire and process not less than 200 kilometres of 2D seismic data; (iii) acquire and process not less than 200 square kilometres 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 work commitments for Block M parties require a minimum expenditure of US$12.5 million during Phase 1.

By December 31, 2010, two wells had been drilled to the minimum depth of 1,150 metres and the Company has acquired and processed 119 square kilometres of 3D seismic and 60 kilometers of 2D seismic in partial completion of the Phase 1 seismic commitments. The Company also acquired 137 square kilometres of 3D seismic which fully completed the seismic obligation for Phase 1 and for Phase 2. The only Phase 1 commitment remaining is the third well required for the extension.

In the first quarter of 2011, Kulczyk Oil and its joint venture partners in Block M elected to enter in to the Phase 2 under the terms of the Block M PSA. The Phase 2 exploration program expires August 27, 2012. The minimum work obligations under the terms of the Block M PSA are to (i) acquire and process not less than 80 kilometres of 2D seismic data; and (ii) drill at least two onshore exploration wells, each to a minimum depth of 1,150 metres. The Phase 2 seismic obligation was completed in 2010. The work commitments for Block M parties require a minimum expenditure of US$7.325 million during Phase 2. The Company's share of the minimum spend is $2.637 million plus an obligation under a farm-in agreement to fund an additional 4% ($293,000) towards a partner's share of expenditures.

Syria

Under the terms of the Block 9 PSC, the Company has an exploration period of four years during which it has committed to acquire and process 350 square kilometres of 3D seismic and drill two exploratory wells. The seismic was shot during 2010. The Company spent $6.5 million during 2010 to complete the acquisition, processing and interpretation of 3D seismic data. The Company expects that drilling of the first of two exploratory wells will commence in the second half of 2011, and will finalize the expenditures required once potential well locations and depths are selected based on evaluation of the seismic program.

In connection with the Triton Hydrocarbon acquisition, and as part of the consideration payable, Kulczyk Oil, through a wholly owned subsidiary, holds a 20% beneficial interest in Syria Block 9 for Triton Petroleum and has submitted a request to the Syrian government for its consent to assign such interest to Triton Petroleum. On September 1, 2010 the Company agreed to assign a 30% ownership in Syria Block 9 to MENA as part of a farm-out agreement with such assignment now having been approved by the Syrian government. The Company's share of work commitments funding is now 50%, including a 5% carry of an unrelated third party.

The Company's portion of expenditures in Syria to March 31, 2011 was $5.2 million, net of $3.6 million of historical costs reimbursed by MENA.

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 acquire & process seismic, conduct geophysical studies and, exploratory wells on licensed fields. 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 the period from 2011 to 2015 as part of the planned development program. Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the license. In respect of the North Makeevskoye license awarded in December 2010, the Company is committed to starting a seismic program in the first half of 2011 and spending $3 million on seismic and drilling six wells over the next five years.

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 per year for the term of the lease.

Dividends

To date, the Company has not paid dividends 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.

2011 Outlook

In 2011, the Company intends to drill at least five wells in Ukraine and complete or re-complete up to seven wells plus initiate stimulation programs, including fracing and selective acidizing on up to five wells. Once the wells are tied in, production is expected to significantly increase from the current level of 6,000 Mcfe per day (gross). The Company also intends to conduct a 3D seismic program in Ukraine to identify new opportunities on the licenses.

In Syria, the Company has plans to drill and test two wells. Upon completion of these wells, the Company expects to have fully met the commitments under the exploration license.

In Brunei, one or two wells are planned to be drilled in 2011 and three wells are planned in 2012. The Company plans to test an additional well in 2011 and up to five wells in 2012. The Company also plans to acquire and process 2D and 3D seismic. By the end of 2011, the Company expects to have progressed on the commitments under Block L Phase 2. In Block M, the Company expects to have met all commitments under Phase 1 and have progressed the commitments under Phase 2.

Forward-Looking Statements

This MD&A contains forward-looking statements. These statements relate to future events or future performance of the Company. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance, or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated, or expected.

Specific forward-looking statements in this MD&A, among others, include statements pertaining to the following:

- factors upon which the Company will decide whether or not to undertake a specific course of action;
- world-wide supply and demand for petroleum products;
- expectations regarding the Company's ability to raise capital;
- treatment under governmental regulatory regimes; and
- commodity prices.

With respect to forward-looking statements in this MD&A, the Company has made assumptions, regarding, among other things:

- the impact of increasing competition;
- the ability of partners to satisfy their obligations;
- the Company's ability to obtain additional financing on satisfactory terms;
- the Company's ability to attract and retain qualified personnel; and
- the Company's ability to realize the anticipated benefits of the Triton Hydrocarbons and KUB-Gas acquisitions;

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- general economic conditions;
- volatility in global market prices for oil and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in oil and gas operations;

- the availability of capital;
- geopolitical volatility in the countries of operations; and
- alternatives to and changing demand for petroleum products.

Furthermore, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitable in the future.

The forward–looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this MD&A.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumption 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.

In the opinion of management, the Company's consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies outlined in the consolidated financial statements.

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 condensed interim consolidated financial statements is included in the following notes to those consolidated financial statements as at and for the year ended December 31, 2010:

- Note 4 – Reserves estimates and depletion
- Note 5 – Determination of fair values
- Note 17 – Income taxes
- Note 19 – Stock options (measurement of share-based payments)

Change in Accounting Policies

The Company has made no changes to the accounting policies since the consolidated financial statements as at and for the year ended December 31, 2010.

Non-IFRS Measures

The financial information presented in this MD&A has been prepared in accordance with IFRS except for the terms "netback" and "working capital" which are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. These non-IFRS measure are presented for information purposes only and should not be considered an alternative to, or more meaningful than information presented in accordance with IFRS. Management believes netback and working capital may be useful supplemental measures as they are used by the Company to measure operating performance and to evaluate the timing and amount of capital required to fund future operations. The Company's method of calculating these measures may differ from those of other companies and, accordingly, they may not be comparable to measures used by other companies.

Kulczyk Oil calculates these non-IFRS measures as follows:

(US$, '000's, unless otherwise stated)

Netback

	Period ended March 31, 2011	Period ended March 31, 2010
Oil and gas revenue	$ 4,833	$ -
Royalty expense	(984)	-
Production costs	(1,167)	-
Netback	$ 2,682	$ -

Working Capital

	As at March 31, 2011	As at December 31, 2010
Current assets	$ 16,455	$ 18,454
Current liabilities	15,063	14,114
Working capital (deficiency)	$ 1,392	$ 4,340

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The preparation of this MD&A is supported by a set of disclosure controls and procedures as at March 31, 2011. Disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**") have been designed to provide reasonable assurance that material information required to be disclosed by the Company is accumulated, appropriately processed and communicated to the Company's management to allow timely decisions regarding and preparation of required disclosures. The Company's design of DC&P and ICFR presently excludes controls, policies and procedures for KUB-Gas, as the acquisition of KUB-Gas closed less than 365 days from the end of the current financial period. Current securities policies in Canada require that management of the Company certifies that it has assessed the effectiveness of the Company's disclosure controls and procedures at every interim and annual period.

The Company's Chief Executive Officer and Chief Financial Officer believe that the Company's DC&P and ICFR provide a reasonable level of assurance that they are effective, however they do not expect that the DC&P and ICFR will prevent all errors and/or fraud. Management has concluded that the DC&P and ICFR as at March 31, 2011 were effective in ensuring that all material information required to be filed had been provided to it in a timely manner, and that the information was recorded, processed and reported within the time period necessary to prepare the filings. The board of directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

Approval

The Company's Board of Directors has approved the disclosure contained within this MD&A.

Abbreviations

The following abbreviations may be used throughout this MD&A document:

Crude Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrel	Mcf	thousand cubic feet
bbl/d	barrels per day	MMcf	million cubic feet
Mbbl	thousands of barrels	Bcf	billion cubic feet
boe/d	barrels of oil per day	Mcf/d	thousand cubic feet per day
Boe	barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated	MMcfd	million cubic feet per day
		Mcfe	thousand cubic feet equivalent
Mboe	thousand boe	Tcf	trillion cubic feet
NGL	natural gas liquids	BcfE	billion cubic feet equivalent

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

Additional Information

Additional information regarding Kulczyk Oil and its business and operations is available at **www.sedar.com**. Information is also accessible on the Company's website at **www.kulczykoil.com**. Copies of the information can also be obtained by contacting the Company at Kulczyk Oil Ventures Inc., 1170, 700 – 4th Avenue S.W., Calgary, Alberta T2P 3J4 (Phone: +1 403 264-8877) or by e-mail at **ryaniw@kulczykoil.com**.