KULCZYK OIL VENTURES INC.

Management's Discussion and Analysis
For the three and nine months ended September 30, 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 three and nine months ended September 30, 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 three and nine months ended September 30, 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 September 30, 2011 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 reporting protocol. This document is dated November 9, 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, Non-IFRS Measures as well as information on "Critical Accounting Estimates".

Kulczyk Oil Ventures Inc.
Management's Discussion and Analysis
For the three and nine months ended September 30, 2011
(Stated in U.S. dollars)

Overview

Kulczyk Oil is an international oil and gas exploration and production company with operations in Ukraine, Syria, and Brunei, with management offices in Calgary, Alberta, Canada, Dubai, United Arab Emirates and in Warsaw, Poland.

The Company believes it 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**"), four indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited **("KOV Brunei")**, Loon Latakia Limited **("Loon Latakia"),** KOV Borneo Limited ("**KOV Borneo**"), and KOV Nigeria BV ("**KOV Nigeria**") and a 70% owned subsidiary, Loon Ukraine Holding Limited ("**Loon Ukraine**") which in turn owns 100% of KUB-Gas LLC ("**KUB-Gas**"), a Ukraine company, 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, a specialized workover 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. The Company began to generate revenues with its acquisition of this interest in these licenses. Since June 2010, the Company has generated nearly $21 million of revenue, net of royalties, in aggregate from these assets.
- 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 50% (economic interest of 45%) 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.
- 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 ("**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 hydrocarbon 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. If completed, the acquisition would have a material impact on the business of the Company. However, satisfaction of these conditions is beyond the control of the Company. Accordingly, the acquisition may not happen when or as we expect, or at all. Kulczyk Investments, S.A. ("**KI**"), the major shareholder of the Company, will provide the Company with bridge financing in respect of the Company's share of Neconde's acquisition costs of OML 42. The Company will take ownership of its interest in Neconde if, and to the extent that, the Company repays the financing provided by KI.
- The Company's shares were listed for trading on the Warsaw Stock Exchange ("**WSE**") on May 25, 2010.

(Stated in U.S. dollars)

Asset Overview

UKRAINE

Background

On June 11, 2010, Kulczyk Oil completed the acquisition of a 70% ownership interest in KUB-Gas, a Ukrainian registered company with 100% ownership interests in three exploration licenses and one production license, plus processing facilities and various well servicing assets, including a 1,000 horsepower Canadian built drilling rig. The investment in KUB-Gas is held through Loon Ukraine, a private entity incorporated in Cyprus. As at September 30, 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 as 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 licenses, and which are generally 25 years in duration. Management intends to seek regulatory approval to, and expects that the Company will be able to, convert the exploration licences into production licences as required. Application has recently been made to convert the Makeevskoye and Olgovskoye exploration licenses into production licenses.

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 almost three-fold to 45.6 Bcfe (7.6 MMboe) before royalties from 18.2 Bcfe (3.0 MMboe).
- Gas production has averaged 7,406 Mcf/d (70% net-5,184 Mcf/d) for the first nine months of 2011. Gas production in the third quarter of 2011 was 10,091 Mcf/d (70% net-7,064 Mcf/d). Peak production in the third quarter of 2011 exceeded 12,000 Mcf/d (70% net-8,400 Mcf/d), a rate more than double the average production rate in 2010.
- The M-19 well, in the Makeevskoye field, was drilled as an exploration well in 2010 to a total depth of 2,060 metres encountering several potential gas bearing reservoirs. The well was tied-in in early July 2011 and initial production levels exceeded 5,500 Mcf/d (70% net-3,850 Mcf/d). Since being tied-in, the well has produced about 4,965 Mcf/d (at 100%), and production volumes are expected to decrease and stabilize at around 4,000 Mcf/d (at 100%).
- 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. The primary target in the O-8 well is the same zone that is currently producing at the O-7 well, 2 kilometres to the northwest. Testing of the well indicated that the R30c zone did not have sufficient permeability for commercial production. The O-8 well is one of the first candidates for a fracture stimulation program in the fourth quarter of 2011. The well is cased and initial production is expected by the end of 2011.
- The O-7 well, in the Olgovskoye field, was drilled in 2010. In the first nine months of the year, the well produced approximately 1,675 Mcf/d of gas (70% net -1,172 Mcf/d) and 31 bbl/d of condensate (70% net-22 bbl/d).
- Drilling of the O-9 well, about one kilometer northwest of the O-8 well, finished in mid-April 2011 and was cased at the end of April as a multi-zone well. Testing of a secondary target resulted in a new discovery as no reserves or resources had previously been attributed to the units within the Lower Bashkirian reservoir. The Lower

Bashkirian (or R37 Unit) tested at 1,200 Mcf/d through a 6 mm choke (at 100%) and a stabilized rate of 762 Mcf/d through a 5 mm choke (at 100%). The R37 unit is interpreted to be present across the Olgovskoye license area. Testing of the primary target in the Middle Bashkirian section commenced in late July. The perforated intervals flowed gas at rates between 1,700 Mcf/d and 4,400 Mcf/d with a stabilized flow rate of 2,900 Mcf/d (at 100%) on a 7 mm choke. The tested zone commenced production in late September at a gross rate of 2,200 Mcf/d (70% net-1,540).

- The O-12 exploration well, located about 1.4 kilometres northwest of O-9, commenced drilling in August, 2011 and reached total depth of 2,700 metres in September. The well was designed to test gas-bearing reservoirs in the Muscovian and Bashkirian sections and to further develop the gas production capability of the Olgovskoye Field. Interpretation of wireline logs indicated between 21 and 39 metres of potential gas pay in 8 potential zones. A 10 metre zone in the Middle Bashkirian was perforated and production tested at a maximum rate of 8.1 MMcf/d (at 100%) on a 10 mm choke. The well is expected to be tied-in for commercial production in late 2011.
- The O-14 well, located approximately 4 kilometres to the southeast of the O-8 well, was drilled to a depth of 2,800 metres and encountered eight potential gas bearing zones in the Middle and Lower Bashkirian formation. The well targeted a previously untested fault block identified after interpretation of 2D seismic data and is on trend with the main Olgovskoye producing area. Production testing is expected to commence in the last quarter of 2011.
- The fifth exploration well, the O-18 well, commenced drilling in October 2011.
- In May 2011, KUB-Gas finalized a loan agreement for a loan facility 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 6.4% 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, expected in early 2012. The loan balance outstanding is to be repaid in thirteen 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. In June 2011, KUB-Gas drew the first $10.0 million of loan proceeds and drew an additional $5.0 million of loan proceeds in each of August and September 2011. At September 30, 2011, $20.0 million of loan proceeds had been drawn.
- The Company commenced a 3D seismic survey of the Olgovskoye and Makeevskoye fields in the first half of 2011. Processing and data interpretation was completed during the third quarter and defined a number of potential locations for further development on both licenses. Most notably, it illustrated a potential areal extent of approximately 5-6 square kilometres for the new gas zone discovered by the M-19 well and defined two new locations, one at Makeevskoye-21 ("M-21") to further develop the gas zone discovered by the M-19 well, and a second at Makeevskoye-16 ("M-16"), for further development of gas production from elsewhere on the Makeevskoye license.
- The Company is actively investigating ways to optimize facilities and enhance production, primarily focused in the Olgovskoye and Makeevskoye fields. One example of a successful optimization initiative is in the Vergunskoye field. Portable compressors were installed on two wells in the field resulting in production increases of close to 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 was awarded an additional exploration license (North Makeevskoye) 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. A 71 kilometre 2D seismic program over this license was completed in second quarter 2011, and data interpretation has defined the first drilling location on this license. The first exploration well is expected to be drilled in the first quarter of 2012.
- In October 2011, the Company initiated a reservoir stimulation program using hydraulic fracturing technology ("**frac'ing**"). The initial program will focus on the O-6 and O-8 wells located in the Olgovskoye field. Wireline logs acquired after the drilling of each of these wells identified potential gas-bearing zones which did not flow gas at commercial rates when tested conventionally. Due to a lack of locally available services necessary for this type of operation, KOV spent the last year putting together a combination of service providers to implement the frac'ing operation. The Company believes that this will be the first frac'ing program in the region using modern frac techniques developed in Canada. A successful operation could have a material impact on the Company if the program demonstrates that gas can be produced from previously non-commercial horizons. The Company believes

that frac'ing may enhance production rates from currently producing zones and enable KUB-Gas to obtain production from zones that will not produce conventionally. The first frac was conducted October 26, 2011 on the O-6 well, which then flowed gas at a rate of 2,300 Mcf/d. The second frac was conducted on the O-8 well and the Company is awaiting the results.

- A new service rig classified as a stand-alone snub unit has been constructed in Canada and shipped to the Ukraine where it is currently being commissioned. The rig should be operational in December 2011. The rig is intended to expedite completion and workover operations, and will facilitate dual completions of existing wells.

SYRIA

Background

Through 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 with the exception of certain costs associated with the first exploratory well drilled in the third quarter of 2011. In July 2011, the Syrian authorities gave formal approval to the assignment of a 20% participating interest in the contract to Triton Hydrocarbons. The Company has also agreed to assign a 5% interest in Block 9 to an unrelated party; as a result, the Company has an economic interest in Block 9 of 45%, but carries 50% of the costs of exploration.

The Company initially posted a guarantee in the amount of $7.5 million, an amount which represents the minimum exploration expenditure level for Phase 1 specified in the PSC. Through the fulfillment of specified work commitments and the MENA farm out, the Company's share of the bank guarantee was reduced to $3.8 million.

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

Update

Drilling of the first exploratory well, Itheria-1, commenced on July 22, 2011. The well was expected to be drilled to 3,256 metres and was expected to take up to 80 days to drill, not including testing. The well was planned to test a large structure with four-way dip closure defined by 3D seismic in an area approximately 200 kilometres due east of the City of Latakia. Primary targets are sandstones of Ordivician age. As part of the farm-out with MENA, MENA funded 60% of the costs to drill Itheria-1. The Company's share of the costs of Itheria-1 was accordingly reduced to 20%.

The Company announced on October 17, 2011 that the drilling program was suspended at a depth of 2,072 metres. The Affendi Sandstone of Ordovician age, the first objective encountered, was penetrated at a depth of approximately 1,470 metres and did not have sufficient porosity or permeability to be a potential reservoir. Two other potential reservoirs, the Ordovician Khanasser Sandstone and the Middle Cambrian Burj Carbonate are expected to occur below the suspended depth. The geological and petrophysical information obtained thus far at Itheria will now be assessed to review the prospectivity of the deeper objectives in Itheria and in the nearby Bashaer prospect. The need to assess the drilling results, together with an increasingly more difficult operating environment, has resulted in a suspension of exploration activity which is presently expected to be temporary.

The second commitment exploration well is still expected to commence drilling immediately after the completion of Itheria-1.

As a result of the current operating conditions in the country, which led to the decision to suspend operations in October, KOV, on behalf of the joint venture, requested an extension of the first exploration period under the Block 9 PSC. The request was refused. The Block 9 PSC remains in effect and discussions with the Syrian government authorities concerning Block 9 are actively continuing. In the meantime, KOV will continue to monitor operating conditions in Syria to assess when, and if, a recommencement of its Syrian operations is possible.

The Company's portion of expenditures to September 30, 2011 was $7.7 million, net of historical costs reimbursed by MENA.

BRUNEI - BLOCK L

Background

Kulczyk Oil, through a wholly-owned subsidiary, and partners (collectively, the "**Contractor**") have a Production Sharing Agreement ("**Block L PSA**") with Brunei National Petroleum Company Sendirian Berhad ("**PetroleumBRUNEI**"). The Block L PSA grants 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 2010, AED Oil Limited ("**AED**") acquired a 50% operating interest in Brunei Block L. 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 $25.0 million and is funding 40% of all expenditures thereafter.

In 2010, two wells, Lukut-1 and Lempuyang-1 were drilled and both 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. During the first quarter of 2011, testing of two zones at Lempuyang-1 commenced. 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 understanding 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 3D seismic programme is currently being considered. The Lukut-1 well remains suspended.

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.

Phase 1 is now complete and the Company believes that the Contractor has, at a minimum, satisfied 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 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 and the work commitments are required to be completed during the Phase 2 period. The Company expects to invest more expenditures than the minimum spend in order to meet the work commitments. Phase 2 expires on August 27, 2012.

Update

The Contractor is planning seismic acquisition programs in the West Jerudong Field area and in the area around (and south) of the Lempuyang-1 well drilled in 2010. In total, 131 square kilometres of 3D seismic will be acquired over West Jerudong, and 13 square kilometres of 3D seismic swath and 13 kilometres of 2D seismic line will be acquired in the

Tutong area. Both programs will provide direction for future drilling prospects and will meet the remaining Phase 2 seismic commitment. The minimum expenditure for Phase 2 remains unchanged at $16 million.

The Company and its joint venture partners have agreed in principle with PetroleumBRUNEI to replace the Phase 2 seismic obligations with a commitment to acquire and process i) 131 square kilometres of onshore 3D seismic; ii) 13.5 square kilometres of onshore 3D swath data and iii) 13 kilometres of onshore 2D seismic.

The Company, along with its joint venture partners, are applying to PetroleumBRUNEI to retain certain areas relinquished upon the completion of Phase 1, in accordance with the terms of the PSA, as well as extend the deadline for completion of Phase 2 to fully incorporate the interpretation of the seismic program.

As at September 30, 2011, the Company has spent $20.9 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 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. Two wells were drilled in 2010. Mawar-1 and Markisa-1 were drilled to depths of 1,292 metres and 1,300 metres 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 metres prior to the completion of the Phase 2 exploration period.

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$7.3 million during Phase 2. The Company's share of the minimum spend is $2.6 million plus an obligation under a farm-in agreement to fund an additional 4% ($293,000) towards a partner's share of expenditures; however the Company expects to incur higher expenditures to meet the work commitments.

Update

The seismic interpretation has been completed and locations for a three well program are being selected based on the results. The Company, along with the joint venture partners, is planning to drill three exploratory wells in Block M starting in early 2012. Testing of a well drilled in 2010 is currently planned to occur in 2012 after the currently planned drilling program.

To date, the Company has spent $76.2 million at Block M, including the initial acquisition.

The Company, along with its joint venture partners, decided to abandon one of the two exploratory wells drilled in Block M in 2010. No indicators of impairment exist in respect of the Company's investment in Block M as evidenced by the planned drilling program.

NIGERIA

The Company has joined the Neconde consortium which has entered into an AFA to acquire a 45% participating interest in OML 42, a large block containing previously-discovered hydrocarbon fields in the Niger Delta area of Nigeria. Completion under the AFA is subject to a number of regulatory approvals and commercial agreements.

Neconde is owned by a consortium of companies (the "**Neconde Consortium**"), including wholly-owned subsidiaries of both Kulczyk Oil and KI. The Company is the Neconde Consortium's Technical Partner and through its indirect wholly-owned subsidiary, would hold 20% of Neconde's issued ordinary shares, thereby giving the Company an effective indirect 9% interest in OML 42.

The Company has entered into a Technical Services Agreement with Neconde through which it will provide Neconde, at Neconde's request, certain technical services related to the day-to-day exploration, development and production of OML 42. The Company and KI are jointly entitled to appoint both the Chief Executive Officer and Chief Financial Officer of Neconde.

OML 42 is an 814 square kilometre lease awarded in 1962. The license expiry date is currently 2019. Initial production commenced in 1969. 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 Mmcf/d natural gas.

OML 42 is currently producing approximately between 20,000 and 25,000 bbl/d from one of the five historically-productive fields, which was re-activated earlier in 2011.

KI has agreed to 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, the Company will hold its shares in Neconde in trust for KI. Kulczyk Oil will hold full legal and beneficial ownership in Neconde to the extent it has paid KI for the bridge financing.

The Neconde Consortium is majority Nigerian owned and includes a 10 percent carried interest held by VP Global, an entity which management understands represents the local community from the area in which OML 42 is located.

Investments

Jura Energy Corporation ("JURA")

The Company holds a 5.7% shareholding in Jura, a public company traded on the Toronto Stock Exchange. The interest was diluted through a share issuance by Jura in 2011.

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. The principal asset of Triton Petroleum is a 20% beneficial interest in the production sharing agreement covering Block 9 in Syria.

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 actively exploring.

Significant Factors Affecting the Company's Results of Operations

The Company's activities to date have focused on the acquisition and evaluation of various exploration projects, which are in the pre-production phase, and the further development of KUB-Gas' assets which has resulted in production revenues and operating expenses being generated since June 11, 2010. KUB-Gas generates positive operating cash flow, which, combined with the EBRD financing is sufficient to support the significant capital investment program in the Ukraine.

In 2011, the Company has focused on significantly enhancing production in Ukraine, securing the EBRD loan to finance development in Ukraine, negotiating the acquisition in Nigeria and drilling the exploratory well in Syria.

General and administrative expenses incurred by the Company are 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.

To date, the acquisition and development of the Company's assets has been financed primarily through the issue of equity, which has raised approximately $172 million in the aggregate since the formation of the Company, and the proceeds of the debentures, which have totaled $40 million in the aggregate, of which $5.0 million is outstanding at September 30, 2011. None of the exploration properties outside of Ukraine have generated revenues.

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 following events are noteworthy:

The Company has signed new unsecured convertible debenture agreements with KI and Radwan Investments GmBH ("**Radwan**"). The total amount available under the debentures is $23.5 million, bearing interest at a rate of 7.16% per annum, and is expected to be converted to common shares at a future date. At September 30, 2011, $5.4 million of the debenture had been drawn.

The convertible debentures held by Tiedemann Investment Group ("**TIG**") were sold in August 2011 by TIG to a subsidiary of Milet Wirtschaftsdaten GesmbH ("**MWG**"), a company based in Austria. A conversion notice from MWG was received by the Company and accordingly, the principal amounts of the debentures plus interest were converted into 18,501,037 common shares on August 12, 2011 at a cost of $0.5767 per share.

In May 2011, the Company announced that it plans to seek a listing of its common shares on the London Alternative Investment Market ("**AIM**") of the London Stock Exchange and that it intends to raise new equity capital there later in 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 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 long-standing 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 in Syria, resulting in new sanctions by the United States, the European Union and Canada, 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 share data)

The following tables set out selected information extracted from the unaudited consolidated condensed interim financial statements for the three and nine months ended September 30, 2011.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	'000's other than share data		'000's other than share data	
Sales revenue, net of royalties	$ 8,801	$ 2,828	$ 16,827	$ 3,828
Production expense	$ (3,121)	$ (1,233)	$ (5,942)	$ (1,421)
General and administrative	$ (3,450)	$ (2,356)	$ (7,462)	$ (6,484)
Acquisition costs	$ (775)	$ (450)	$ (1,028)	$ (1,570)
Stock based compensation	$ (463)	$ (857)	$ (1,738)	$ (3,086)
Interest and accretion	$ (624)	$ (565)	$ (2,163)	$ (3,630)
Depletion and depreciation	$ (898)	$ (1,570)	$ (3,688)	$ (2,290)
Net loss	$ (2,437)	$ (3,727)	$ (7,634)	$ (15,478)
Net loss per share - basic and diluted	$ (0.01)	$ (0.01)	$ (0.03)	$ (0.05)
Weighted average number of shares	412,358,238	400,002,984	405,637,583	292,830,976

Oil and Gas Netback for the three and nine months ended September 30, 2011

	Three months ended September 30,					
	2011			2010		
	Gas (Mcf)	Condensate (bbl)	**Total**	Gas (Mcf)	Condensate (bbl)	**Total**
Average daily sales volumes (net to KOV)	7,064	59	**7,420**	3,373	13	**3,452**
Financial						
Revenue	$ 10.53	$ 94.92	**$ 11.15**	$ 7.32	$ 53.58	**$ 7.44**
Royalty expense	(1.71)	(47.08)	**(2.12)**	(1.11)	(27.02)	**(1.20)**
Royalty as a % of revenue	*16.3%*	*49.6%*	***19%***	*15.1%*	*50.4%*	***16%***
Production expenses	(3.36)	-	**(3.20)**	(2.78)	-	**(2.72)**
Netback	$ 5.45	$ 47.85	**$ 5.82**	$ 3.43	$ 26.56	**$ 3.52**

	Nine months ended September 30,					
	2011			2010		
	Gas (Mcf)	Condensate (bbl)	**Total**	Gas (Mcf)	Condensate (bbl)	**Total**
Average daily sales volumes (net to KOV)	5,184	44	**5,451**	2,260	9	**2,312**
Financial						
Revenue	$ 9.42	$ 95.25	**$ 9.84**	$ 7.13	$ 68.92	**$ 7.38**
Royalty expense	(1.57)	(49.10)	**(1.93)**	(1.21)	(25.59)	**(1.20)**
Royalty as a % of revenue	*16.7%*	*51.6%*	***19.6%***	*16.9%*	*37.1%*	***16.3%***
Production expenses	(2.94)	-	**(2.80)**	(2.30)	-	**(2.29)**
Netback	$ 4.91	$ 46.15	**$ 5.12**	$ 3.62	$ 43.33	**$ 3.89**

As natural gas and condensate are co-produced, production expenses are not distinguished by product.

Sales revenue, net of royalties and Production expenses

In June, 2010, the Company acquired an effective 70% interest in KUB-Gas which generates production revenue and expense in Ukraine. Prior to that date, none of the Company's oil and natural gas projects had any production. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price. Royalty rates are set each month by the government of Ukraine based primarily on prevailing market prices.

Production expenses have increased due to increased labour costs, increased chemical, workover and repair and maintenance costs and higher utility expenses.

General and Administrative

General and administrative ("**G&A**") costs for the three and nine months ended September 30, 2011 were $3.5 million and $7.5 million, respectively (2010 - $2.4 million and $6.5 million, respectively). The increase reflected higher level of corporate activity as a result of expanding operations in the Company. G&A costs incurred by the Company are expensed, and are incurred to provide support for the evaluation and exploration activities described above.

Acquisition Costs

The Company incurred costs in relation to the Nigeria acquisition in 2011 and the KUB-Gas and the Triton Hydrocarbon acquisitions in 2010.

Stock based compensation

Stock based compensation for the three and nine months ended September 30, 2011 were $0.5 million and $1.7 million, respectively (2010 - $0.9 million and $3.1 million, respectively). The decrease in expense reflects the larger number of options granted and immediately vested in prior years.

Depletion and Depreciation ("D&D")

Depletion and depreciation expense for the three and nine months ended September 30, 2011 was $0.9 million and $3.7 million, respectively (2010 - $1.6 million and $2.3 million, respectively). The increase for the nine month period was a result of production in Ukraine for the first three quarters of 2011 compared to production in slightly more than one quarter in the comparative period.

Interest expense and accretion

Interest and accretion expense for the three and nine months ended September 30, 2011 were $0.6 million and $2.2 million respectively (2010 - $0.6 million and $3.6 million, respectively). The increase for the three month period is the result of having the EBRD loan in place for in 2011, but not in 2010. The decrease in the nine month period was a result of the conversion of the KI debenture in the third quarter of 2010 which resulted in lower debt balances outstanding throughout the first nine months of 2011 compared to the prior year.

Summarized Balance Sheet ($'000's)

	As at September 30, 2011	As at December 31, 2010
Total current assets	$ 19,023	$ 18,454
Total non-current assets	$ 201,082	$ 178,871
Total assets	$ 220,105	$ 197,325
Total current liabilities	$ 11,955	$ 14,114
Total non-current liabilities	$ 23,686	$ 4,992
Total share capital	$ 205,447	$ 192,520
Total equity	$ 184,464	$ 178,219

Total assets

Total assets as at September 30, 2011 were $220.1 million compared to $197.3 million as at December 31, 2010. The increase reflects capital expenditures in the current year.

Total Liabilities

Total liabilities as at September 30, 2011 were $35.6 million compared to $19.1 million as at December 31, 2010 due to the advancement of $20.0 million of funds under the EBRD loan facility and the KI-Radwan debentures, offset by the settlement of the TIG convertible debentures ($9.0 million) which were included in the current liabilities at December 31, 2010. In August 2011, the debentures were converted into common shares at the cost of $0.5767 per share on August 12, 2011. As a result, the liability was not settled for cash.

The $20.0 million aggregate draw on the EBRD facility is included in non-current liabilities. KUB-Gas was in compliance with all three of the financial ratio debt covenants at September 30, 2011.

Summarized Cash Flow ($'000's)

	Nine months ended September 30,	
	2011	2010
Net cash used by operating activities	$ (1,611)	$ (9,459)
Net cash provided by financing activities	$ 24,004	$ 100,045
Net cash used in investing activities	$ (18,216)	$ (66,790)

Operating Activities

Operating activities used $1.6 million of cash flow in the first nine months of 2011 compared to cash used of $9.5 million in the comparative period in 2010 as net production revenue was generated in the Ukraine for a full nine months in 2011 compared to three months in the comparative period.

Investing Activities

Net cash used in investing activities decreased in the first nine months of 2011 compared to the same period in 2010 as the prior year included the initial acquisitions of KUB-Gas ($42.8 million) and Triton Hydrocarbons ($3.0 million) plus exploration and development expenditures aggregating to $22.2 million. The current year reflects the development activity in Ukraine ($19.6 million) and the exploration activity in Brunei ($3.7 million) and Syria ($2.7 million).

Financing Activities

Net cash from financing activities decreased in the first nine months of 2011 compared to the same period in 2010. In 2011, cash from financing included the EBRD loan ($20.0 million) and the KI convertible debentures ($5.4 million), whereas in 2010 cash from financing included the receipt of funds from the Initial Public Offering ($87.4 million) and the issuance of convertible debentures ($12.0 million) in 2010.

Summary of Quarterly Data ($'000's, except per share amounts)

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

	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Oil and gas revenue	$ 10,871	$ 5,224	$ 4,833	$ 4,374
Loss for the period	$ (2,437)	$ (3,308)	$ (1,889)	$ (2,779)
Per share - basic and diluted	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.01)

	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Oil and gas revenue	$ 3,374	$ 1,198	$ -	$ -
Loss for the period	$ (3,727)	$ (7,616)	$ (4,135)	$ (6,496)
Per share - basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.03)

Oil and gas revenue in Q3, 2011 increased 108% over Q2, 2011, as Q3, 2011 had higher prices and greater production volumes compared to Q2, 2011. The M-19 well commenced production in Q3, 2011. The loss in Q3, 2011 includes netback from operations of $5.7 million compared to netback from operations of $2.5 million in Q2, 2011.

Oil and gas revenue in Q3, 2011 increased 222% over Q3, 2010, as Q3, 2011 had higher prices and higher production volumes compared to Q3, 2010. The loss in Q3, 2011 includes netback from operations of $5.7 million, compared to netback from operations of $1.8 million in Q3, 2010.

Oil and gas revenue in Q2, 2011 increased 8% over Q1, 2011, as Q2, 2011 had higher prices and flat production volumes compared to Q1, 2011.

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 $2.7 million.

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

The loss for Q4 2010 includes $2.9 million of G&A costs, $0.9 million of netback from operations and $0.8 million 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 $1.8 million of netback from operations.

The net loss for Q2 2010 included acquisition costs associated with KUB-Gas and Triton Hydrocarbons of $0.4 million, interest on the convertible debentures of $1.6 million which was consistent with Q1 2010, stock based compensation of $1.7 million which increased $1.2 million from Q1 2010 due to the issuance of stock options in May 2010, foreign exchange losses of $1.3 million which increased $1.2 million from Q1 2010 due to the IPO proceeds being received in Polish zlotys ("**PLN**"), 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 $0.7 million, interest on the convertible debentures of $1.5 million, stock based compensation of $0.5 million, foreign exchange losses of $0.1 million and increased G&A expense relating to the purchase of Triton Hydrocarbons.

Capital Expenditures

During the nine months ended September 30, 2011, the Company incurred $26.1 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-12, O-14 and O-9 wells and completion of the expanded pipeline at M-19 in Ukraine as well as the seismic programs conducted;
- the drilling of Itheria-1 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 data acquired from the 2010 seismic program 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 September 30, 2011	As at December 31, 2010
Brunei	($000's)	($000's)
Block L	$ 20,956	$ 17,421
Block M	76,165	75,952
Total Brunei	97,121	93,373
Syria, Block 9	7,734	5,078
Ukraine	4,253	3,566
	$ 109,108	$ 102,017

Debt and Convertible Debt

Tiedemann Investment Group Convertible Debenture

The convertible debentures held by TIG were sold in August 2011 by TIG to a subsidiary of MWG, an unrelated company based in Austria. A conversion notice from MWG was received by the Company and accordingly, the principal amounts of the debentures plus interest were converted into 18,501,037 common shares on August 12, 2011 at a price of $0.5767 per share.

KI – Radwan Convertible Debenture

On August 11, 2011, the Company signed new unsecured convertible debenture agreements with KI and Radwan. The total amount available under the debentures is $23.5 million, bearing interest at a rate of 7.16% per annum, and is expected to be converted to common shares at a future date. At September 30, 2011, the Company had drawn $5.4 million from KI.

Between September 2009 and March 2010, the Company drew a total of $20.0 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.

EBRD Loan Facility

KUB-Gas signed an agreement for a loan facility of up to $40.0 million from the EBRD. The proceeds of the loan are to be used to fund development of the licenses in Ukraine. The financing bears interest in two components, one being LIBOR + 6% and the other being based on revenues. The loan proceeds are expected to be advanced in two tranches, with $23.0 million being advanced in 2011 and the remaining $17.0 million being advanced once the Olgovskoye and Makeevskoye licenses are converted to production licenses, expected in early 2012. The loan balance outstanding is to be repaid in thirteen 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 outstanding from time to time. In June 2011, KUB-Gas drew the first $10.0 million in loan proceeds and in each of August and September 2011, drew an additional $5.0 million of loan proceeds. At September 30, 2011, a total of $20.0 million had been drawn.

Liquidity and Capital Resources

The Company's liquidity requirements arise primarily from the need to finance exploration and development expenditures and general working capital. The Company's primary sources of liquidity during the periods under review have been equity and debt capital raisings, principally funds from its controlling shareholder and the net proceeds of its initial public offering on the WSE in 2010. Outside of Ukraine, the Company's projects are currently in the exploration phase and accordingly, the Company is not forecasting revenue from those operations for the immediate future. Operating cash flow from the Ukraine is not sufficient to support the intensive capital investment program currently in progress in Ukraine, nor the cash flow requirements of the rest of the Company.

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 or debt issuances or alternative sources of financing such as farm-out agreements.

Economic factors affecting the Company's cash flow required for operations and for investments include fluctuations in foreign currency exchange rates. Fluctuations in foreign currency exchange rates between United States dollars and other currencies, primarily the Canadian dollar resulted in a foreign exchange loss of $0.1 million for the nine months ended September 30, 2011.

The Company has debt consisting of two convertible debentures which have a fixed interest rates and one loan which has a variable rate, but with the option to convert to a fixed rate. At September 30, 2011, approximately 80% the debt is affected by movements in interest rates.

KUB-Gas signed an agreement for a loan facility of up to $40.0 million from the EBRD, as described above. 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 has resulted in $4.9 million being returned from KUB-Gas to provide funding that was 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. In 2010, the Company used part of the proceeds of its initial public offering on the WSE to buy its 70% interest in KUB-Gas for $45 million.

With respect to the Nigerian acquisition, KI has agreed to provide the Company with bridge financing in respect of the Company's share of Neconde's acquisition costs of OML 42. The Company will not hold a full legal and beneficial interest in Neconde unless and until it has repaid KI and KI's trust over the Company's shares in Neconde is extinguished. The Company is currently working with its partners to determine the post-closing investment plans in Nigeria.

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. Future borrowing requirements will be assessed on an ongoing basis. When financing corporate acquisitions, the Company may also assume certain future liabilities.

The Company's current cash and restricted cash, existing farm-out arrangements and debt financing arrangements are expected to be insufficient to fund the Company's committed exploration and development programs for the next twelve months. Additional financing will also be required to fund the discretionary planned exploration and development programs as well as management expenses. The Company is engaged in discussions with joint venture partners and regulators to extend the license periods in both Syria and Brunei. Although not the primary motivation for requesting the extensions, obtaining them will defer certain committed expenditures into future periods beyond the next twelve months. There are no guarantees that additional equity, debt, farm-out arrangements or extensions will be available when needed.

Equity and debt 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, other than as follows. The terms and conditions of the EBRD loan agreement restrict the ability of KUB-Gas to pay dividends or repay loans or loan money to the Company, however this is not expected to be a material restriction to the Company. As the operator of the Block 9 joint venture in Syria, the Company experienced, and is continuing to experience, difficulty in transferring cash required to meet contractually committed and incurred expenses as a result of sanctions placed by the governments of the United States, Canada and the European Union on oil and gas investment in Syria. There are no other restrictions on the use of the Company's capital resources that could materially affect, directly or indirectly, its operations or activities. The Company is in compliance with all 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.

During the period covered by this report, the Company did not issue guarantees exceeding 10% of the Company's equity. Details of all debt outstanding, including pledges, are disclosed in the notes to the condensed consolidated interim financial statements as at September 30, 2011.

Working Capital

	As at September 30, 2011 ($000's)	As at December 31, 2010 ($000's)
Current assets	$ 19,023	$ 18,454
Current liabilities	11,955	14,114
Working capital	$ 7,068	$ 4,340

The Company has working capital of $7.1 million as at September 30, 2011 (December 31, 2010: $4.3 million) with an additional $3.8 million posted as cash security for a bank guarantee related to Syria (December 31, 2010: $3.0 million).

Share Data

The Company is authorized to issue an unlimited number of common shares of which 420,804,367 common shares and 35,424,000 options to purchase common shares were outstanding as at September 30, 2011. There has been no change to the number of common shares between September 30, 2011 and November 10, 2011. In October 2011, 1,830,000 options expired.

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

The Company completed an 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.

On August 12, 2011, the parties to the MWG debenture agreed to convert approximately $10.5 million of principal and interest outstanding under the debenture. 18,501,037 common shares were issued at a cost of $0.5767 per share.

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

Summary of common shares outstanding:

	Number of Shares	Carrying amount
	'000's other than share data	
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
Issued on conversion of convertible debentures	18,501,037	10,672
Transfer equity portion of convertible debt	-	2,160
Balance, September 30, 2011	420,804,367	$ 205,447

The following table summarizes information about common share purchase options outstanding and exercisable at September 30, 2011:

Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$ 0.73	1,830,000	1,830,000	0.09
$ 0.73	2,460,000	2,460,000	0.80
$ 0.42	475,000	475,000	2.01
$ 0.50	75,000	75,000	2.38
$ 0.47	1,660,000	1,660,000	2.62
$ 0.69	10,500,000	7,000,000	2.96
$ 0.62	15,213,000	5,071,000	3.65
$ 0.62	72,000	24,000	4.02
$ 0.60	1,530,000	510,000	4.46
$ 0.63	320,000	106,667	4.61
$ 0.61	1,289,000	429,667	4.84
$ 0.64	35,424,000	19,641,333	3.08

In the first, second, and third quarter of 2011, the Company granted 1,530,000, 320,000 and 1,289,000 share purchase options, respectively to a director and to certain employees of Kulczyk Oil. The exercise prices were $0.60, $0.63 and $0.61, respectively. 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, Mr. E. Beaman exercised 200,000 options and one director, Mr. S. Akerfeldt was granted 510,000 options and nil shares. The complete list of shares and options owned by KOV directors and executive officers is presented in Management's Discussion and Analysis for the period ended December 31, 2010. As at the date of issuing this report, management is only aware of one shareholder holding more than 5% of the common shares of the company. KI owns approximately 47.6% of the common shares issued at September 30, 2011.

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. The Company is exposed to interest rate fluctuations as interest rates on the EBRD facility are variable, but the Company does have the option to convert to fixed interest rates.

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 September 30, 2011 consist predominately of receivables from joint venture partners that are anticipated to be applied against future capital expenditures.

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 September 30, 2011 the Company's primary currency exposure related to Canadian dollar ("**CAD**") and Ukraine hryvnia ("**UAH**").

	September 30, 2011	September 30, 2011
	CAD ($000's)	UAH ($000's)
Cash and cash equivalents	$ (603)	$ 84,783
Accounts receivable	194	4,606
Prepaid expenses	194	2,754
Accounts payable and accrued liabilities	(315)	(32,862)
Net foreign exchange exposure	$ (530)	$ 59,281

For the nine months ended September 30, 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 $21,000 respectively. Earnings are not impacted by fluctuations in the Ukraine hryvnia as translation gains and losses are included in other comprehensive income.

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. The Company has no commodity hedge program in place which could potentially mitigate the price risk.

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 investment in Jura is recorded at fair value based on the quoted market prices for the shares. The EBRD loan is not short term, however the carrying value approximates the fair value as the loan carries a variable interest rate.

Related Party Transactions

The Company provides financial and accounting services, pursuant to a shared services agreement, to Jura Energy Corporation ("**Jura**"), a public company in which the Company owns 5.7% of the outstanding common shares. For the three and nine months ended September 30, 2011, the Company charged fees and associated costs to Jura totalling $28,000 and $84,000 respectively (three and nine months ended September 30, 2010 – $24,000 and $72,000). At September 30, 2011, $49,000 (September 30, 2010 – $nil) was due from Jura. Three directors of the Company, Timothy M. Elliott, Norman W. Holton and Stephen C. Akerfeldt, 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 and nine months ended September 30, 2011, the fees totalled $156,000 and $469,000 respectively (2010: $131,000 and $392,000). There were no amounts due to Nemmoco in relation to these administrative services at September 30, 2011 or September 30, 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 and therefore the maximum liability to the Company that may arise from the Loon Guarantee is based on the first exploration phase. The minimum work program for the first phase has been completed and the Company does not anticipate 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 and nine months ended September 30, 2011, these fees totalled $3,000 and $9,000, respectively (2010 - $3,000 and $9,000). At September 30, 2011, Loon Energy owed $5,000 (2010 – $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 September 30, 2011, Loon Energy owed $31 thousand (2010 – $nil) for these costs. Kulczyk Oil and Loon Energy are related as they have four common directors and officers and the same principal shareholder.

KI owns approximately 47.6% of the issued and outstanding shares of the Company (December 31, 2010 – 49.8%). The Company had service agreements with KI and Kulczyk Holdings S.A. ("**KH**") for ongoing administrative, acquisition and consulting services which expired on June 30, 2011. For the three and nine months ended September 30, 2011 the Company paid $nil and $210,000 to KI (2010 - $nil) and $nil and $90,000 to KH (2010 - $nil) respectively. For the three and nine months September 30, 2010 the Company paid KI a $450,000 fee for their assistance with the KUB-Gas acquisition and $nil to KH.

Certain expenditures of Neconde have been paid by Kulczyk Oil and are reimbursable by KI. At September 30, 2011 KI owed $53,000 to Kulczyk Oil (2010 - $nil). Certain expenditures of Kulczyk Oil are paid for by KH and Kulczyk Oil reimburses KH for these expenditures. At September 30, 2011, Kulczyk Oil owed KH $28,000 for these expenditures (2010 - $nil). There were no amounts receivable from or payable to KI or KH in the comparative period.

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

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, incurred further expenditures to interpret the results of the survey. 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, although the Company expects to expend more than this amount on the work commitments. Phase 2 continues until August 27, 2012. The Company and its joint venture partners have agreed in principle with PetroleumBRUNEI to amend the seismic commitments to i) 164.5 square kilometres of onshore 3D seismic; ii) 13.5 square kilometres of onshore 3D swath data and iii) 13 kilometres of onshore 2D seismic. The Company is applying to have the expiry date extended for 12 months to allow sufficient time to conduct and interpret the seismic tests and select and drill two wells.

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 $25.0 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 its share 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. No amount has 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 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 $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 kilometres of 2D seismic in partial completion of the Phase 1 seismic commitments. The Company acquired 137 square kilometres of 3D seismic in 2011 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$7.3 million during Phase 2, although the Company expects to expend more than that amount to meet the work commitments. The Company's share of the minimum spend is $2.6 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 commenced drilling the first of two exploratory wells in July 2011 but suspended drilling in October 2011 to allow time to assess the results of the drill program to date and to avoid the operational issues arising from the current social and political unrest in the country. The Company has applied to extend the license period to provide sufficient time to complete the well and commence drilling the second commitment well. The regulatory agency has so far rejected that request and discussions are continuing.

In 2011, the Syrian authorities consented to the assignment of a 20% beneficial interest in Syria Block 9 to Triton Petroleum and the assignment of a 30% ownership in Syria Block 9 to MENA as part of a farm-out agreement. The Company's share of work commitments funding is now 50%, including a 5% carry of an unrelated third party.

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 and process seismic, conduct geophysical studies and drill 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 has conducted a seismic program and is planning to spend $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 $195,000 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.

Proceedings before courts, arbitration or public administration

Neither the Company nor any of its subsidiaries are involved in any proceedings before a court, relevant arbitration body or public administrative authority concerning payables or debt of the Company or its subsidiaries whose value, individually or in aggregate would be equal to or greater than 10% of the Company's equity.

2011 and 2012 Outlook

In the remaining months of 2011, the Company intends to drill two more wells in Ukraine, tie in two or three new wells, as well as frac two wells (O-6 and O-8) and re-complete or workover up to six more wells. Once the wells are tied in, production is expected to increase from the September average level of 11,100 Mcfe/d (gross) by the end of the year. In 2012, the Company intends to drill up to six new wells, recomplete or workover up to 22 wells, and construct pipelines to tie in wells as needed. Management forecasts that the Company will exit the 2012 year with a production rate significantly higher than the current rate as a result of the new wells, the well stimulation programs and the workover programs.

In Syria, the Company will continue to seek an extension to the license and monitor the social and political situation in the country closely while continuing to analyse the results of drilling to date.

In Brunei, one well is planned to start drilling in early 2012 and up to four additional wells are planned in 2012. The Company plans to test up to six wells in 2012. The focus for the remainder of 2011 is on the seismic acquisition and processing program in Block L. 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.

The Outlook does not include any expectations in respect of the Nigerian acquisition, and will not until such time as the transaction has been consummated.

The Company does not prepare and publish financial forecast results for the current or future financial years.

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.

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 measures 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 "netback" and "working capital" as presented earlier in this document.

Future Changes in Accounting Policies

Joint Arrangements and Off Balance Sheet Activities

In May 2011, the IASB issued the following new and amended standards:

• *IFRS 10, "Consolidated Financial Statements" ("IFRS 10")* replaces *IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27")* and Standing Interpretations Committee ("SIC") 12, *"Consolidation – Special Purpose Entities"*. IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent.

• *IFRS 11, "Joint Arrangements"* ("IFRS 11") replaces *IAS 31, "Interest in Joint Ventures"* ("IAS 31") and *SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers"*. IFRS 11 defines a joint arrangement as an arrangement where two or more parties have joint control. A joint arrangement is classified as either a "joint operation" or a "joint venture" depending on the facts and circumstances. A joint operation is a joint arrangement where the parties that have joint control have rights to the assets and obligations for the liabilities, related to the arrangement. A joint operator accounts for its share of the assets, liabilities, revenues and expenses of the joint arrangement. A joint venturer has the rights to the net assets of the arrangement and accounts for the arrangement as an investment using the equity method.

• *IFRS 12, "Disclosure of Interest in Other Entities"* ("IFRS 12") replaces the disclosure requirements previously included in IAS 27, IAS 31, and *IAS 28, "Investments in Associates"*. It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

• *IAS 27, "Separate Financial Statements"* has been amended to conform to the changes made in IFRS 10 but retains the current guidance for separate financial statements.

• *IAS 28, "Investments in Associates and Joint Ventures"* has been amended to conform to the changes made in IFRS 10 and IFRS 11.

The above standards are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, providing the five standards are adopted concurrently. The Company is currently evaluating the impact of adopting these standards on our Consolidated Financial Statements.

Fair Value Measurement

In May 2011, the IASB issued *IFRS 13, "Fair Value Measurement"* ("IFRS 13") which provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 13 on our Consolidated Financial Statements.

Financial Instruments

The IASB intends to replace *IAS 39, "Financial Instruments: Recognition and Measurement"* ("IAS 39") with *IFRS 9, "Financial Instruments"* ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2013 with different transitional arrangements depending on the date of initial application. However, in August 2011, the IASB issued an exposure draft which proposed changing this effective date to annual periods beginning on or after January 1, 2015. We are monitoring the status of this exposure draft. The Company is currently evaluating the impact of adopting IFRS 9 on our Consolidated Financial Statements.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB issued an amendment to *IAS 1, "Presentation of Financial Statements"* ("IAS 1") requiring companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. This amendment to IAS 1 is effective for annual periods beginning on or after July 1, 2012 with full retrospective application. Early adoption is permitted. The Company is currently evaluating the impact of adopting this amendment on our Consolidated Financial Statements.

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 September 30, 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. 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 September 30, 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.

There were no material changes to the Company's internal controls over financial reporting since December 31, 2010.

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	MMcf/d	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**.