KULCZYK OIL VENTURES INC.

Management's Discussion and Analysis
For the three and six months ended June 30, 2012
(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 Consolidated Interim Financial Statements for the three and six months ended June 30, 2012 ("**the Consolidated Financial Statements**") and the December 31, 2011 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 Company's Board of Directors ("**the Board**") reviews the MD&A and recommends its approval by the Board.*

*In connection with the filings for the three and six months ended June 30, 2012, this MD&A is filed in United States dollars ("**US Dollars**") which is the reporting currency of the Company. The Condensed Consolidated Interim Financial Statements for June 30, 2012 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. Production and reserves are presented on a before royalties basis consistent with Canadian protocol reporting. This document is dated August 13, 2012.*

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

Overview

Kulczyk Oil is an international oil and gas exploration and production company with operations in Ukraine and Brunei, interests in Syria and 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 and production revenue. 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**"), six indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited **(**"**KOV Brunei**"**)**, Loon Latakia Limited **(**"**Loon Latakia**"**),** KOV Borneo Limited ("**KOV Borneo**"), KOV Africa Limited ("**KOV Africa**"), AED South East Asia Limited ("**KOV SEA**") and a 70% owned subsidiary, KUBGAS Holdings Ltd., (formerly, Loon Ukraine Holding Limited) ("**KUB Holdings**") which in turn owns 100% of KUB-Gas LLC ("**KUB-Gas**"), a Ukraine company. The Company also has other non-core investments.

- In Ukraine, the Company has an effective net interest of 70% in five natural gas and gas condensate licenses, four gas processing facilities, a drilling rig, a specialized workover rig and other well servicing assets, plus 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. Three of the producing licenses are production licenses, with two of these having been converted from exploration licenses in February 2012 and April 2012. The other two licenses are exploration licenses with one of these producing limited production volumes on a test basis. The Company began to generate revenues with its acquisition of its interest in these licenses in June 2010, and since that time has generated nearly $60 million of revenue, net of royalties, in aggregate from these assets.
- In Brunei, the Company holds:
  - a 90% working interest in the Brunei Block L production sharing agreement ("**Block L PSA**") 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 1,134 square kilometre (281,000 acre) area covering certain onshore and offshore areas. The Company held a 40% working interest until December 5, 2011, when it acquired AED South East Asia which holds a 50% working interest and operatorship of Block L; and
  - a 36% working interest in the Brunei Block M production sharing agreement ("**Block M PSA**") 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 1,505 square kilometre (372,000 acre) area covering certain onshore areas of Brunei to the south of Block L.
- In Syria, the Company holds a working interest of 50% in the Syria Block 9 production sharing contract ("**Block 9 PSC**") which provides the right to explore for and, upon fulfillment of certain conditions, to produce oil and gas from Block 9, a 10,032 square kilometre (2.48 million acre) area in northwest Syria. The Company has an agreement to assign a 5% ownership interest to a third party which is subject to the approval of Syrian authorities, and which, if approved, would leave the Company with a remaining effective interest of 45% in Block 9.
- On March 31, 2012 the put and call option the Company had with Kulczyk Investments, S.A. ("**KI**") to acquire a 20% interest in Neconde Energy Limited ("**Neconde**") consortium (the "**Neconde Consortium**") expired. With the expiry of the option, the bridge financing provided by KI also expired and the ownership of the 20% interest in the Neconde Consortium transferred to KI.
- The Company's shares were listed for trading on the Warsaw Stock Exchange ("WSE") on May 25, 2010.

(Stated in U.S. dollars, except as noted)

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, at that time, 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. Two of the exploration licenses were converted to production licenses in 2012, as further described below and a new exploration license was granted. The investment in KUB-Gas is held through KUB Holdings, a private entity incorporated in Cyprus. As at June 30, 2012 the Company owns the following licenses in Ukraine.

Production license	**Issue date**	**Expiry date**
Vergunskoye field	27 September 2006	27 September 2026
Olgovskoye field	06 February 2012	06 February 2032
Makeevskoye field	10 April 2012	10 April 2032
Exploration license		
Krutogorovskoye field	16 July 2004	11 August 2014
North Makeevskoye field	29 December 2010	20 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 20-25 years in duration. In 2011, the Company applied to convert two licences from exploration to production. In February 2012, the Ukrainian Ministry of Fuel and Energy formally acknowledged the conversion of the Olgovskoye license from an exploration license to a 20-year production license. Conversion of the Makeevskoye license to a production license was completed in April 2012. Management intends to seek regulatory approval to, and expects that the Company will be able to, convert the remaining exploration licences into production licences as required.

Update

- Gas production averaged 21,304 Mcf/d (70% net: 14,913 Mcf/d) for the six months ended June 30, 2012, and was more than triple the average production for the first six months of 2011.
- In June 2012 the Company's net production from the Ukraine had increased to more than 15 MMcf/d with gross production of more than 22 MMcf/d from the four producing fields.
- On July 6, 2012, drilling commenced on M-20. The well was drilled to a total depth of 2,000 metres and is cased pending completion.
- On June 19, 2012, 225 square kilometres of new 3D seismic new data in the North Makeevskoye field was acquired and processing is expected to be completed in September 2012.
- On May 7, 2012, drilling commenced on NM-1. On June 19, 2012, the well was drilled to a total depth of 2,500 metres and cased after log and drilling information indicated 4 potential hydrocarbon-bearing zones. Production testing of the NM-1 well is expected to take place in the third quarter.
- On April 10, 2012, the Makeevskoye license was converted into a 20-year production license.
- On March 27, 2012, O-8 and O-18 wells were tied-in for commercial production at gross production rates of more than 1 MMcf/d of natural gas from each well.
- On February 6, 2012, drilling commenced on M-21. The well was drilled to a total depth of 2,210 metres and was completed on March 22, 2012. Two potential gas-bearing zones were identified and have been tested. The well came on production in early August, 2012 at initial production rates of 1.7 million MMcf/d.

Future plans

KUB Gas plans to drill three new wells and continue the workover and frac'ing programs during the second half of 2012, to further develop the resources.

BRUNEI - BLOCK L

Background

Kulczyk Oil, through a wholly-owned subsidiary, and partners (collectively, the "**Contractor**") are parties to the 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 1,123 square kilometres of both onshore and shallow offshore areas of northern Brunei. In 2011, as part of the normal renewal process, the Contractor relinquished approximately half of the 2,264 square kilometres initially granted in the Block L PSA. The Block L PSA provides for an exploration period of six years from the date of the Block L PSA, divided into two phases, Phase 1 and Phase 2. In 2010, AED Oil Limited ("**AED**") acquired a 50% operating interest in Block L by acquiring a company that had previously farmed in for an interest in the block and re-named the acquired company AED South East Asia Limited. As part of their farm-in agreement, AED and its predecessor 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 more than 56 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, and the Lempuyang-1 well was abandoned. 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. 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 Contractor elected to proceed with the Phase 2 exploration period. The amended minimum work obligations for Phase 2 include (i) acquire and process 13 kilometres of onshore 2D seismic data, (ii) acquire and process not less than 130 square kilometres of 3D seismic data, iii) acquire and process 13.5 square kilometres of onshore 3D swath data (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and (v) drill at least two onshore exploration wells, each to a minimum depth of 2,000 metres. The Contractor is 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 exceed its minimum expenditure requirement in meeting the work commitments for Phase 2, which expires on August 27, 2013.

In December 2011, the Company acquired AED's subsidiary. KOV SEA, for $200,000 in cash plus assumption of AED's unpaid obligations to the joint venture. KOV SEA's only assets arise from its 50% interest in the Block L PSA acquired in 2010, and with this acquisition, the Company now holds an aggregate 90% interest in the Block, and is the operator. The Company was successful in obtaining an extension to Phase 2 of the Block L PSA to August 27, 2013 as well as revising the work commitments to correspond with the current work plan.

Update

During the second quarter 2012, the Contractor completed the acquisition of 145.4 square kilometres of 3D seismic in the West Jerudong Field area and an additional 46.4 square kilometres of 3D acquired in the area updip from and to the northeast of the Lukut-1 well drilled in 2010.

Future Plans

Processing of the acquired data has commenced and is expected to be completed by the end of August and a preliminary interpretation is expected to be done by October.

The Contractor has applied to PetroleumBRUNEI to re-acquire certain areas relinquished upon the completion of Phase 1, in accordance with the terms of the Block L PSA.

As at June 30, 2012, the Company has spent $34.6 million for its share of expenditures on Block L.

BRUNEI - BLOCK M

Background

In 2009, the Company acquired a 36% interest in the Block M PSA, through the acquisition of Triton Hydrocarbons Pty Ltd. Block M covers an onshore area of Brunei of approximately 1,505 square kilometres and is immediately south of the Company's interest in Block L. In 2011, in accordance with the terms of the Block M PSA, the Company, along with the joint venture partners ("**the Contractor**") relinquished half of the 3,011 square kilometres initially granted in the Block M PSA. The Contractor has applied to re-acquire the area relinquished.

The Block M exploration period is six 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 Contractor has 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. The wells were drilled to depths of 1,292 metres and 1,300 metres respectively and both wells encountered hydrocarbon shows, but were not tested.

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 Contractor elected to proceed to 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 but with a total minimum depth of the three wells (including the undrilled Phase 1 well) of 5,158 metres. The work commitments for Block M 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 expenditures in an amount that will exceed the minimum in order to meet the work commitments.

Update

The Operator is in the process of obtaining a twelve month extension to Phase 2 of the Block M PSA, securing a drilling rig and coordinating future drilling operations with Block L. Future drilling on Block M will be subject to the Operator successfully obtaining an extension to Phase 2.

Future Plans

The seismic interpretation has been completed and locations for a three well program have been selected based on the results. The Contractor is planning to drill three exploratory wells in Block M starting in late 2012, depending on rig availability and securing the extension of the Phase 2 PSA with PetroleumBRUNEI. Testing of a well drilled in 2010 is currently planned to occur early 2013, depending on the outcome of the currently planned drilling program.

The Contractor has applied to PetroleumBrunei for a PSA extension for Phase 2, which currently expires on August 27, 2012, however as of the date of this document, the requested extension has not been granted.

To date, the Company has spent $78.6 million at Block M, including the initial acquisition costs of $65.5 million.

The Contractor 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 overall investment in Block M as evidenced, in part, by the planned drilling program and the application to extend Phase 2.

SYRIA

Background

Through Loon Latakia, Kulczyk Oil holds a participating interest in the Block 9 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 Block 9 PSC, the Company has a first phase exploration period of four years, which was subsequently extended for 11 months, 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 extensions to phases of the PSC by committing to performing additional work on an agreed basis.

At the date the Block 9 PSC became effective, the Company held a 100% participating interest. By a farm-out agreement dated September 1, 2010, and approved by the Syrian authorities in March 2011, the Company assigned a 30% ownership in Block 9 to MENA Hydrocarbons (Syria) Ltd. ("**MENA**") effective June 17, 2010. 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 $651,000 of costs associated with the first exploratory well which was 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 Block 9 PSC to Triton Petroleum Pte Limited ("**Triton Petroleum**", now Ninox Petroleum Pty Ltd. ("**Ninox**")), an Australian company. An unrelated company also holds the right to be assigned a 5% interest in Block 9; 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 Block 9 PSC. Through the fulfillment of specified work commitments and the MENA farm-out, the Company's share of the bank guarantee was reduced to $3.6 million, of which $3.5 million expired, and was received subsequent to quarter-end.

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.

The Company announced on October 17, 2011 that the drilling program for the Itheria well 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 a difficult operating environment, has resulted in an indefinite suspension of exploration activity.

At December 31, 2011, the Company evaluated the situation in Syria, including the escalating crisis in the country as well as the strict sanctions imposed by the United States, Canada, the European Union and the Arab League and concluded that indicators of impairment existed. Consequently, the Company has fully impaired the value of the exploration asset in Syria as well as the financial investment in Ninox, whose sole asset was an interest in Syria Block 9. The impairment of the exploration asset of $8.7 million and the write off of the investment of $1.5 million were both recorded at December 31, 2011.

Update

Effective July 16, 2012 the Company, in its capacity as Operator of Block 9 in Syria, gave notice to the Ministry of Petroleum and Mineral Resources of its declaration of Force Majeure. The circumstances leading to the Force Majeure included insurrection, riots, labour disturbances and other causes rendering performance of the Company's obligations under the contract impossible and all of the circumstances beyond the Company's reasonable control.

As at June 30, 2012, the Company's Syrian assets remained impaired as the project remains suspended. No definite plans have been made to return to Syria.

NIGERIA

On March 31, 2012, the Company and KI mutually agreed that it was not in the best interest of either company to continue the Neconde purchase option beyond its March 31, 2012 expiry date and accordingly, the option expired on that date.

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. Subsequent to quarter-end, Jura completed an acquisition under which common shares were issued, further diluting the interest held by KOV to 1.1%

Ninox Petroleum Pty Ltd.

With the purchase of Triton Hydrocarbons Pty Ltd. in 2009, the Company acquired 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's investment in Triton Petroleum was reduced to an approximate 30% interest. In 2011, Ninox acquired 100% of Triton Petroleum in a share exchange transaction and the Company therefore now owns an approximate 1.63% interest in Ninox. The principal asset of Ninox is a 20% beneficial interest in the Block 9 PSA in Syria. Concurrent with the Company's decision to fully impair the exploration asset in Syria, the Company has also written off the carrying value of Ninox at December 31, 2011.

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 currently is 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' producing assets. 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.

Throughout the first six months of 2012, the Company has focused on enhancing production in Ukraine, oversaw the seismic acquisition in Block L, planned drilling for Block M and Block L and advanced plans to list its common shares on the Alternative Investment Market of the London Stock Exchange ("**AIM**").

General and administrative expenses incurred by the Company are generally expensed, with the capitalization of costs directly related to exploration and development assets. G&A is incurred to provide support for the exploration and development activities described above.

To date, the acquisition and development of the Company's assets have been financed primarily through the issuance of new equity, which has raised approximately $205 million in the aggregate since the formation of the Company, and the proceeds of the debentures, which have totaled $42.8 million in the aggregate, of which $22.8 million is outstanding at June 30, 2012. None of the oil and gas properties outside of Ukraine have generated revenues.

Significant Changes in the Company's Financial or Trading Positions

In May 2011, the Company announced its plan to seek a listing of its common shares on the AIM and that it intended to raise new equity capital there later in 2011. The Company presently expects to complete its AIM listing and equity raise in the second half of 2012.

Since June 30, 2012, there have been no significant changes in the financial and trading position of the Company.

Significant Market Trends

For the foreseeable future, the Company will be conducting exploration and development activities such as seismic acquisition programs, exploratory and development drilling and well workover programs 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 European Union, Canada and 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, the Arab League 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

The following table set out selected information extracted from the unaudited condensed consolidated interim financial statements for the three and six months ended June 30.

(Thousands of US dollars, except share data)	Six months ended June 30,		
(Unaudited)	2012	2011	2010
Sales revenue, net of royalties	$ 37,463	$ 8,026	$ 1,000
Production expense	$ (5,956)	$ (2,821)	$ (188)
General and administrative	$ (5,129)	$ (4,012)	$ (4,128)
Transaction costs	$ (1,279)	$ (253)	$ (732)
Stock based compensation	$ (1,005)	$ (1,275)	$ (530)
Interest and accretion	$ (3,728)	$ (1,539)	$ (3,064)
Depletion and depreciation	$ (11,099)	$ (2,785)	$ (720)
Net earnings (loss)	$ 3,301	$ (5,192)	$ (11,752)
Net earnings (loss) per share - basic and diluted	$ 0.01	$ (0.02)	$ (0.05)
Weighted average number of shares	421,043,485	402,161,957	200,491,546

(Thousands of US dollars, except share data) (Unaudited)	Three months ended June 30, 2012	2011	2010
Sales revenue, net of royalties	$ 19,924	$ 4,177	$ 1,000
Production expense	$ (3,892)	$ (1,654)	$ (188)
General and administrative	$ (1,998)	$ (2,553)	$ (2,621)
Transaction costs	$ (1,279)	$ (253)	$ (732)
Stock based compensation	$ (454)	$ (610)	$ (530)
Interest and accretion	$ (2,027)	$ (879)	$ (1,561)
Depletion and depreciation	$ (5,790)	$ (1,376)	$ (686)
Net earnings (loss)	$ 1,275	$ (3,308)	$ (7,616)
Net earnings (loss) per share - basic and diluted	$ 0.00	$ (0.01)	$ (0.04)
Weighted average number of shares	421,257,697	402,303,327	276,207,854

Oil and Gas Netback for the period ended June 30

(Thousands of US dollars) (Unaudited)	Six months ended June 30, 2012 Gas (Mcf)	2012 Condensate (bbl)	2012 **Total (Mcfe)**	2011 Gas (Mcf)	2011 Condensate (bbl)	2011 **Total (Mcfe)**
Average daily sales volumes (net to KOV)	14,046	145	**14,913**	4,306	37	**4,528**
Financial						
Revenue	$ 11.76	$ 102.32	**$ 12.07**	$ 8.49	$ 95.51	**$ 8.74**
Royalty expense	(2.11)	(39.09)	**(2.35)**	(1.43)	(50.75)	**(1.77)**
Royalty as a % of revenue	*17.9%*	*38.2%*	***19.5%***	*16.8%*	*53.1%*	***20.2%***
Production expenses	(1.64)	-	**(1.54)**	(2.45)	-	**(2.45)**
Netback	$ 8.01	$ 63.22	**$ 8.17**	$ 4.60	$ 44.76	**$ 4.52**

(Thousands of US dollars) (Unaudited)	Three months ended June 30, 2012 Gas (Mcf)	2012 Condensate (bbl)	2012 **Total (Mcfe)**	2011 Gas (Mcf)	2011 Condensate (bbl)	2011 **Total (Mcfe)**
Average daily sales volumes (net to KOV)	14,919	146	**15,797**	4,222	26	**4,378**
Financial						
Revenue	$ 11.76	$ 109.20	**$ 12.03**	$ 8.94	$ 147.76	**$ 9.18**
Royalty expense	(2.13)	(37.32)	**(2.33)**	(1.52)	(76.44)	**(1.84)**
Royalty as a % of revenue	*18.1%*	*34.2%*	***19.3%***	*17.0%*	*51.7%*	***20.0%***
Production expenses	(2.01)	-	**(1.90)**	(3.01)	-	**(2.91)**
Netback	$ 7.61	$ 71.88	**$ 7.81**	$ 4.40	$ 71.32	**$ 4.43**

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

Netback has no IFRS equal-operating measure.

Sales revenue, net of royalties and Production expenses

Production volumes increased for the first six months of 2012 compared to the same period in 2011. In the first six months of 2012, four new wells were tied-in and brought onto 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. Natural gas prices in Ukraine have increased in the first half of 2012 compared to the first half of 2011 as a result of changes in prices charged by Russia at the border. Royalty rates are set each month by the government of Ukraine based primarily on prevailing market prices.

Production expenses, on an absolute basis, have increased due to increased labour costs, increased chemical, workover and repair and maintenance costs and higher utility expenses, however production volumes have increased at a greater rate, resulting in lower costs per unit in the first half of 2012 compared to the first half of 2011.

General and Administrative

General and administrative ("**G&A**") costs for the three and six months ended June 30, 2012 were $2.0 million and $5.1 million, respectively (2011 - $2.6 million and $4.0 million respectively). G&A costs incurred by the Company are generally expensed, with the capitalization of costs directly related to exploration and development assets. G&A costs are incurred to provide support for the evaluation and exploration activities described above.

Transaction costs

Transaction costs are non-recurring expenditures and in this instance, represent AIM listing costs, potential acquisition costs and a recovery of $1.0 million for the three and six months ended June 30, 2012 (2011 - $0.3 million expense). The recovery of $1.0 million represents the recovery of previously expensed Neconde acquisition costs from KI.

Stock based compensation

Stock based compensation for the three and six months ended June 30, 2012 was $0.5 million and $1.0 million, respectively (2011 - $0.6 million and $1.3 million, respectively). The decrease in this expense reflects the larger number of options granted and immediately vested in the prior year.

Depletion and Depreciation ("D&D") and Impairment

Depletion and depreciation expense for the three and six months ended June 30, 2012 was $5.8 million and $11.1 million, respectively (2011 - $1.4 million and $2.8 million, respectively). The increase for the period was a result of increased production in the Ukraine in 2012 and a reduced reserve volume base, as further explained below, resulting in a higher depletion rate over the first six months of 2012. D&D is computed on a field by field basis taking into account the net book value of the field, future development costs associated with the reserves, as well as the proved and probable reserves of the field. The significant majority of the net book value is attributed to the Olgovskoye field, based on the estimated reserves at the date of the KUB-Gas acquisition. All new wells drilled in 2012 and 2011 were logged with modern logging tools, and when the wireline logs from these new wells were integrated into the Company's data base and analysed, it was determined that the old logs overestimated hydrocarbon pay by as much as 30%. This difference between modern logs and old logs has had a material impact on the calculation of reserves particularly for the Olgovskoye field, for which more than half the reserves previously attributed were removed at December 31, 2011. While the removal of reserves from Olgovskoye is partially offset by the increase in reserves in the Makeevskoye field, the net book value of Olgovskoye is unchanged, which, when applied against a smaller reserve base significantly increases the D&D rate for both the Olgovskoye field and the Company in total.

In the first half of 2012, an impairment of $0.2 million was recorded on the Syrian assets. The Syrian assets were first impaired in fourth quarter 2011. The current quarter's impairment is for general and administrative costs incurred in 2012.

Interest expense and accretion

Interest and accretion expense for the three and six months ended June 30, 2012 was $2.0 million and $3.7 million, respectively (2011 - $0.9 million and $1.5 million, respectively). The increase is a result of the EBRD loan which was finalized in the second quarter 2011, the KI and Radwan debentures, which were first drawn down in third quarter of 2011, and a new KI loan issued in June of 2012. Refer to the debt section for further details on these loans.

Summarized Balance Sheet ($'000's)

(Thousands of US dollars)	As at June 30	As at December 31,	
	2012	2011	2010
	(unaudited)	(audited)	(audited)
Total current assets	$ 39,016	$ 19,284	$ 18,454
Total non-current assets	$ 216,097	$ 200,991	$ 178,871
Total assets	$ 255,113	$ 220,275	$ 197,325
Total current liabilities	$ 49,137	$ 18,751	$ 14,114
Total non-current liabilities	$ 26,380	$ 26,997	$ 4,992
Total liabilities	$ 75,517	$ 45,748	$ 19,106
Total share capital	$ 205,722	$ 205,445	$ 192,520
Total equity	$ 179,596	$ 174,527	$ 178,219

Total assets

Total assets as at June 30, 2012 were $255.1 million compared to $220.3 million as at December 31, 2011. The increase reflects capital expenditures in the current year and increased cash due to KUB-Gas' operating cash flow.

Total Liabilities

Total liabilities as at June 30, 2012 were $75.5 million compared to $45.7 million as at December 31, 2011, an increase of $29.5 million, primarily due to the advancement of $12.3 million of funds under the KI-Radwan debentures, $5.0 million advanced under a new KI loan and increased accounts payable of $5.6 million, due to the timing of payments to vendors.

KUB-Gas was in compliance with all of the EBRD's financial ratio debt covenants at June 30, 2012.

Summarized Cash Flow ($'000's)

(Thousands of US dollars)	Six month periods ended June 30		
(Unaudited)	2012	2011	2010
Net cash generated (used) by operating activities	$ 19,950	$ 549	$ (7,115)
Net cash provided by financing activities	$ 17,480	$ 9,008	$ 99,686
Net cash used in investing activities	$ (18,927)	$ (8,471)	$ (58,539)

Operating Activities

Operating activities generated $20.0 million of cash flow in the first half of 2012 compared to $0.5 million in the first half of 2011. Positive operating cash flow was generated in the Ukraine, with the increase attributable to increased production for the six months ended June 30, 2012, compared to the six months June 30, 2011, and is sufficient to cover the operating cash outflows for the rest of the Company. However, the use by the Company of cash generated in the Ukraine is restricted until such time as the EBRD loan has been repaid.

Financing Activities

Net cash from financing activities increased in the first half of 2012 by $8.5 million to $17.5 million, as compared to the first half of 2011. In 2012, the financing activities represented draws on the KI and Radwan convertible debentures ($12.3 million) and the first draw on the KI loan ($5.0 million) in June 2012. During the first six months of 2011, the financing activities represented a draw of $10.0 million, less debt issuance costs, on the EBRD loan.

Investing Activities

Net cash used in investing activities increased during the first half of 2012 to $18.9 million, as compared to $8.5 million in the first half of 2011, due to higher levels of capital expenditures in 2012.

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:

(Thousands of US dollars) (Unaudited)	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Oil and gas revenue	$ 24,713	$ 21,820	$ 14,299	$ 10,871
Earnings (loss) for the period	$ 1,275	$ 2,026	$ (9,282)	$ (2,437)
Per share - basic and diluted	$ 0.00	$ 0.00	$ (0.02)	$ (0.01)

	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Oil and gas revenue	$ 5,224	$ 4,833	$ 4,374	$ 3,374
Loss for the period	$ (3,308)	$ (1,889)	$ (2,779)	$ (3,727)
Per share - basic and diluted	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)

Oil and gas revenue in Q2 2012 increased 373% over Q2 2011 due to higher prices and increased production volumes compared to Q2 2011. The net earnings in Q2 2012 included netback from operations of $16.0 million compared to $2.5 million in Q2 2011.

Oil and gas revenue in Q1 2012 increased 263% over Q1 2011 as Q1 2012 had higher prices and higher production volumes compared to Q1 2011. The net earnings in Q1 2012 included netback from operations of $15.5 million compared to netback from operations of $2.7 in Q1 2011.

Oil and gas revenue in Q4 2011 increased 32% over Q3 2011, as Q4 2011 had higher prices and higher production volumes compared to Q3 2011. The M-19 well produced throughout Q4 2011. The loss in Q4 2011 includes netback from operations of $10.2 million compared to netback from operations of $5.7 million in Q3 2011 as well as the impairment of exploration assets in Syria totalling $8.7 million.

Oil and gas revenue in Q4 2011 increased 227% over Q4 2010, as Q4 2011 had higher prices and significantly higher production volumes compared to Q4 2010. The loss in Q4 2011 includes netback from operations of $10.2 million, compared to netback from operations of $0.3 million in Q4 2010.

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 but 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.

Capital Expenditures

During the three and six month periods ended June 30, 2012, the Company incurred $13.0 million and $29.4 million, respectively, of capital expenditures on exploration and evaluation assets and property, plant and equipment, including costs incurred on the following projects:

- the drilling of the NM-1, M-21, tie-in of the O-6, O-8 and O-18 wells and costs incurred in moving the drilling rig to the North Makeevskoye license area;
- the acquisition of 3D seismic 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, but are subject to impairment. As noted above, the exploration assets in Syria remain fully impaired as at June 30, 2012.

Capitalized costs of the Company's exploration and evaluation assets are as follows:

(Thousands of US dollars)	As at June 30, 2012 (Unaudited)	As at December 31, 2011 (Audited)
Brunei		
Block L	$ 34,605	$ 21,876
Block M	78,580	77,749
Total Brunei	113,185	99,625
Syria, Block 9	-	-
Ukraine	9,315	4,943
	$ 122,500	$ 104,568

Capitalized costs of the Company's property and equipment assets are as follows:

(Thousands of US dollars)	Oil and Natural gas interests	Plant and equipment	Other	Total
Cost or deemed cost:				
Balance at December 31, 2011	$ 88,908	$ 10,541	$ 3,775	$ 103,224
Additions	6	3,760	1,574	5,340
Reclassification from exploration and evaluation	5,872	-	-	5,872
Foreign currency translation adjustment	722	86	27	835
Balance at June 30, 2012	$ 95,508	$ 14,387	$ 5,376	$ 115,271
Depletion and depreciation:				
Balance at December 31, 2011	$ (9,162)	$ (1,046)	$ (752)	$ (10,959)
Depletion and depreciation	(10,139)	(756)	(204)	(11,099)
Foreign currency translation adjustment	(128)	(15)	(10)	(153)
Balance at June 30, 2012	$ (19,429)	$ (1,817)	$ (966)	$ (22,211)
Net book value:				
Balance at December 31, 2011	$ 79,746	$ 9,496	$ 3,024	$ 92,265
Balance at June 30, 2012	$ 76,079	$ 12,570	$ 4,410	$ 93,060

Debt and Convertible Debt

KI – Loan

On June 22, 2012, the Company entered into a loan agreement with KI for a maximum of $12.0 million. The loan bears interest at 15% and matures on December 31, 2012. At June 30, 2012, the Company had drawn $5.0 million on this loan.

KI – Radwan Convertible Debentures

On August 11, 2011, the Company signed unsecured convertible debenture agreements with KI and Radwan. The total amount available under the debentures was $23.5 million, bearing interest at a rate of 8.0% per annum, and matured on August 11, 2012. The convertible debentures also included a provision for an implied additional 12.0% in interest to be paid in Kulczyk Oil shares upon conversion. At June 30, 2012, the Company had drawn $21.2 million from KI and $1.6 million from Radwan. Subsequent to quarter end, the debentures in the amount of $26.2 million, including interest, will be converted to 60,499,029 common shares.

European Bank for Reconstruction and Development ("EBRD") Loan Facility

In the second quarter of 2011, KUB-Gas signed an agreement with the EBRD for a loan facility of up to $40.0 million. 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 incremental revenues. The loan proceeds are to be advanced in two tranches, with $23.0 million being advanced in 2011 and the remaining $17.0 million available to be advanced in 2012 with both the Olgovskoye license and the Makeevskoye license now having been converted to production licenses. The loan balance outstanding is to be repaid in thirteen equal semi-annual payments commencing in July 2012.

Kulczyk Oil, as the indirect majority owner of KUB-Gas, has agreed to provide a guarantee for the entire amount of the loan outstanding from time to time. At June 30, 2012 and December 31, 2011, a total of $23.0 million had been drawn, of which $5.3 million is reported as a current liability.

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 debt capital raises, principally the funds from its debenture holders, the KI loan and the EBRD loan. Outside of the 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 plus the remaining proceeds available under the EBRD debt facility are sufficient to completely support the intensive capital investment program currently in progress in Ukraine.

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 six months ended June 30, 2012.

The Company has debt consisting of two convertible debentures and a note payable which have fixed interest rates and one loan which has a variable rate, but with the option to convert to a fixed rate. At June 30, 2012, approximately 45% of the debt is affected by movements in interest rates.

Since commencement of activities in the international oil and gas business, the Company has relied on regular injections of new equity and debt 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.

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 issuances 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 planned discretionary exploration and development programs as well as general corporate expenses. The Company is engaged in discussions with joint venture partners and regulators to extend the PSA periods in Brunei Block M and may, if necessary and appropriate, seek further extensions in Syria. 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. As the operator of the Block 9 joint venture in Syria, the Company has experienced, and continues 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, the Arab League 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, except for the guarantee of the loan drawn by KUB-Gas, as discussed under the heading "EBRD Loan Facility" above. Details of all debt outstanding, including pledges, are disclosed in the notes to the consolidated annual financial statements as at December 31, 2011.

Working Capital

(Thousands of US dollars)	As at June 30, 2012 (Unaudited)	As at December 31, 2011 (Audited)	As at December 31, 2010 (Audited)
Current assets	$ 39,016	$ 19,284	$ 18,454
Current liabilities	49,137	18,751	14,113
Working capital	$ (10,121)	$ 533	$ 4,341

The Company has a working capital deficiency of $10.1 million as at June 30, 2012 (December 31, 2011: $0.5 million positive working capital) with an additional $3.6 million posted as cash security for a bank guarantee related to Syria (December 31, 2011: $3.6 million). The cash security for the Syrian bank guarantee was returned to the Company in July 2012.

The working capital deficiency increase is largely the result of the KI and Radwan convertible debentures which mature in August 2012 being presented as current liabilities. These convertible debentures are to be converted into share capital at maturity and therefore no cash was required to extinguish the debt.

Share Data

The Company is authorized to issue an unlimited number of common shares of which 421,257,700 common shares and 41,441,000 options to purchase common shares were outstanding as at June 30, 2012. There was no increase in shares outstanding between June 30, 2012 and August 13, 2012, with 60,499,029 shares to be issued relating to the settlement of the convertible debentures. Since December 31, 2011 1,360,667 (second quarter - 140,000) options were forfeited.

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

Since December 31, 2011, 453,333 common share purchase options were exercised at an average exercise price of $0.40 per share.

Summary of common shares outstanding:

(Thousands of US dollars, except share data) (Unaudited)	Number of Shares	Carrying amount
Balance, December 31, 2010	402,103,330	$ 192,520
Options Exercised	200,000	32
Issued on conversion of convertible debentures	18,501,037	10,733
Transfer equity portion of convertible debt	-	2,160
Balance, December 31, 2011	420,804,367	205,445
Options Exercised	453,333	277
Balance June 30, 2012	421,257,700	$ 205,722

The following table summarizes information about common share purchase options outstanding and exercisable at June 30, 2012:

Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$ 0.68	2,460,000	2,460,000	0.05
$ 0.40	475,000	475,000	1.26
$ 0.40	75,000	75,000	1.63
$ 0.69	1,660,000	1,660,000	1.87
$ 0.60	10,500,000	10,500,000	2.21
$ 0.53	14,193,000	14,193,000	2.90
$ 0.40	62,000	41,333	3.27
$ 0.42	1,020,000	680,000	3.71
$ 0.40	156,667	104,445	3.86
$ 0.40	1,198,000	399,333	4.09
$ 0.40	7,651,333	2,550,444	4.43
$ 0.38	910,000	303,333	4.54
$ 0.40	250,000	83,333	4.56
$ 0.51	120,000	40,000	4.70
$ 0.49	530,000	176,667	4.84
$ 0.49	180,000	60,000	4.85
$ 0.53	41,441,000	33,801,889	2.92

At various dates during the six months ended June 30, 2012, the Company granted 1,300,000 and 710,000 share purchase options to officers and to certain employees of Kulczyk Oil. The weighted average exercise price was $0.43. 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 changes to executive and officers share owned and options granted since December 31, 2011: one officer, Mr. A. Silenzi, was granted 900,000 options and nil shares. The complete list of shares and options owned by KOV directors and executive officers is presented in the Management's Discussion and Analysis for the year ended December 31, 2011. 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 44.3% of common shares issued at June 30, 2012.

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 and note payable are fixed and while the Company is exposed to interest rate fluctuations as interest rates on the EBRD facility are variable, the Company does have the option to convert it 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 June 30, 2012 consist predominately of receivables from joint venture partners that are anticipated to be applied against future capital expenditures. Accounts receivable also includes $1.5 million due from MENA, in respect of MENA's farm-in on Block 9 as well as certain costs related to the 2011 drilling program paid for on MENA's behalf by the Company.

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 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 June 30, 2012 the Company's primary currency exposure related to Canadian dollar ("**CAD**") and Ukraine hryvnia ("**UAH**").

The table below illustrates balances included in the financial statements that are denominated in CAD and UAH:

(Thousands of US dollars)	June 30, 2012		June 30, 2011	
(Unaudited)	CAD	UAH	CAD	UAH
Cash and cash equivalents	298	217,671	829	17,353
Accounts receivable	460	7,550	174	68
Prepaid expenses	307	3,810	47	3,848
Accounts payable and accrued liabilities	(125)	(58,199)	(598)	(32,862)
Net foreign exchange exposure	941	170,832	452	(11,593)
US $ equivalent at period end exchange rate	$ 924	$ 21,374	$ 469	$ (1,434)

For the six months ended June 30, 2012, 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 $93,000. 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, at minimum, erode the Company's existing reserves as these reserves are depleted through ongoing production, and may negatively impact the Company's ability to grow its asset base in the future.

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 operations and to preserving and protecting the environment. The Company believes it 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, may expire or be 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 (level 1 fair value). The convertible debentures are recorded at fair value which is estimated based on current interest rates for similar instruments, credit spreads applicable to the Company and the term of the instrument (level 2 fair value). The KI loan is recorded at fair value based on current interest rates for similar instruments and the term of the instrument (level 2 fair value). The fair value of the long term debt approximates the carrying value as interest rates and credit spreads applicable to the Company are not estimated to have changed significantly since the credit facility was established (level 2 fair value).

Related Party Transactions

The Company provides financial and accounting services pursuant to a shared services agreement to Jura, a public company in which the Company owned 5.7% of the outstanding common shares at June 30, 2012 (1.1% subsequent to quarter end). For the three and the six months ended June 30, 2012, the Company charged fees and associated costs to Jura totalling $8,110 and $39,010 respectively (three and six months ended June 30, 2011 – $27,510 and $56,000). At June 30, 2012, $49,309 (June 30, 2011 – $19,000) was due from Jura. Three directors of the Company, Timothy M. Elliott, Norman W. Holton and Stephen C. Akerfeldt, were directors of Jura and Paul H. Rose, Chief Financial Officer of the Company was also the Chief Financial Officer of Jura until Jura completed an acquisition subsequent to quarter end, at which point the Board was reconstituted and a change in management occurred, the result of which Mr. Holton and Mr. Rose are no longer associated with Jura. Services pursuant to the shared services agreement continue to be provided through a transition period.

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 six months ended June 30, 2012, the fees totalled $178,056 and $356,112, respectively (three and six months June 30, 2011 - $131,000 and $262,000). At June 30, 2012, $nil was owing to Nemmoco (2011 - $nil).

Loon Energy Corporation ("**Loon Energy**") has no employees, and management and administrative services are provided by the management and staff of Kulczyk Oil. For the three and six months ended June 30, 2012, these fees totalled $2,971 and $5,980, respectively (three and six months June 30, 2011 - $3,098 and $6,195). At June 30, 2012, Loon Energy owed $14,550 (2011 – $2,000) 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 June 30, 2012, Loon Energy owed $769 (June 30, 2011 – $63,000) for these costs. Kulczyk Oil and Loon Energy are related as they have four common directors and officers and the same principal shareholder.

At June 30, 2012, KI owns 44.3% of the issued and outstanding shares of the Company (December 31, 2011 – 44.3%). 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 six months ended June 30, 2012 the Company paid $nil (three and six months ended June 30, 2011 - $105,000 and $210,000) to KI and $nil to KH (three and six months ended June 30, 2011 - $45,000 and $90,000). There were no amounts payable to KI or KH in the comparative period.

On March 31, 2012 the put and call option the Company had with KI to acquire a 20% interest in Neconde Energy Limited ("**Neconde**"), a company with an oil and gas property interest in Nigeria expired. With the expiry of the option, the bridge financing provided by KI also expired and ownership of the 20% interest in Neconde transferred to KI. Certain costs incurred by the Company related to this investment option are reimbursable by Neconde or its shareholders, and at June 30, 2012, the Company was owed $1.2 million for these reimbursable costs.

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 Block L PSA provides for an exploration period of six years from the date of the Block L PSA, August 27, 2006, divided into two phases, Phase 1 and Phase 2, each of which was initially for a period of three years, with Phase 2 now extended and expiring on August 27, 2013. The Company has met the work commitments required for Phase 1.

In August 2010, the Company and its joint venture partners elected to proceed to the Phase 2 exploration period. The minimum work obligations for Phase 2 include (i) acquire and process 13 kilometres of onshore 2D seismic data, (ii) acquire and process not less than 130 square kilometres of onshore 3D seismic data, iii) acquire and process 13.5 square kilometres of onshore 3D swath data (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and (v) 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 $16.0 million during Phase 2 and the work commitments are required to be completed during the Phase 2 period. With $15.4 million of expenditures having been made against the minimum spend, the Company's share of the remaining minimum spend is $0.5 million. The Company expects to invest more than the minimum spend requirements in order to meet the work commitments.

The Company has a letter of credit in the amount of $2.1 million in support of a 40% 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 Block L 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 Block L 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 six years from the date of the Block M PSA, August 27, 2006, and is divided into Phase 1 (five years) and Phase 2 (two years) which may run concurrently.

Phase 1 expired on August 27, 2011 and Phase 2 expires on August 27, 2012. The Contractor has applied for an extension to Phase 2 of the PSA. At September 30, 2011 all Phase 1 work commitments, except for drilling a 2,000 metre well, had been completed. The Company's share of the expected well cost is approximately $4.2 million.

In the first quarter of 2011, the Contractor in Block M elected to enter in to the Phase 2 under the terms of the Block M PSA. 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 but with a total minimum depth over the three wells (including the undrilled Phase 1 well) of 5,158 metres. The Phase 2 seismic obligation was completed in 2011. The work commitments for Block M PSA 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 a first phase exploration period of four years, originally expiring on November 27, 2011 during which it has committed to acquire and process 350 square kilometres of 3D seismic and drill two exploratory wells. The remaining work commitment outstanding is to drill two exploration wells. The Syrian authorities extended the term of the first exploration period under the Block 9 PSC to October 26, 2012. The drilling of the first of the two exploratory wells commenced on July 22, 2011.

As a result of the current operating conditions in the country, the drilling program on the first commitment well was suspended.

Effective July 16, 2012, the Company, in its capacity as Operator of Syria's Block 9, declared a Force Majeure event due to insurrection, riots, labour disturbances and other clauses rendering the performance of its obligations under the Contract impossible. The Company will continue to monitor operating conditions in Syria to assess when a recommencement of its Syrian operations is possible.

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 $42 million during the period from 2012 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 four years, with the first well drilled in May 2012.

Office Space

The Company has a lease agreement for office space in Calgary, Canada which expires on October 31, 2014. The commitment is approximately $325,000 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.

Second half 2012 Outlook

In the second half of 2012, in the Ukraine, the Company intends to drill three new wells, recomplete or workover up to 6-8 wells, and construct pipelines to tie-in wells as needed. Management forecasts that the Company will exit the 2012 year with a production rate higher than the 2011 year-end exit rate as a result of the 2012 drilling program and workover program.

In Brunei Block M, one well is planned to start drilling late in 2012 and up to two additional wells are planned to be drilled early 2013 subject to the granting by PetroleumBRUNEI of the Phase 2 extension. By the end of 2012, the Company expects to have met all commitments under Phase 1 and have progressed the commitments under Phase 2. The Operator has applied for an extension on Block M in order to complete the work commitments, however as at the date of this document the extension has not been granted. By the end of 2012, the Company expects to have progressed on the commitments under Block L.

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

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 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

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

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, 2011:

- Note 3 – Reserves estimates and depletion
- Note 4 – Determination of fair values
- Note 13 – Convertible debentures (fair value measurement)
- Note 17 – Income taxes
- Note 18 – Stock options (measurement of share-based payments)

Change in Accounting Policies

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 its 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 its 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 its 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 its 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 June 30, 2012. 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 conclude 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. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the DC&P and ICFR as at June 30, 2012 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, 2011.

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 equivalent 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**.