KULCZYK OIL VENTURES INC.

Management's Discussion and Analysis
For the year ended December 31, 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 KOV's audited Consolidated Financial Statements as at and for the years ended December 31, 2012 and 2011 ("**the 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 year ended December 31, 2012, this MD&A uses United States dollars ("**US Dollars**") which is the reporting currency of the Company. The consolidated financial statements for December 31, 2012 and 2011 are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This document is dated March 20, 2013.*

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
As at, and for the year ended December 31, 2012
(Stated in US dollars, except as noted)

Financial Highlights

(Thousands of US dollars except per unit and volume amounts)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Average daily production Mcfe (net to 70% KOV)	17,621	8,967	15,934	6,338
Oil and gas revenue (100%)	$ 27,338	$ 14,299	$ 99,588	$ 35,227
Netback per Mcfe	$ 8.20	$ 8.68	$ 8.15	$ 6.39
Funds from operations	$ 9,399	$ 5,559	$ 33,259	$ 5,622
Funds from operations per share	$ 0.02	$ 0.01	$ 0.07	$ 0.01

During 2012, the Company reported record annual production levels averaging 15,934 Mcfe per day, net to KOV's 70% interest in its Ukraine assets, reflecting the results of capital programs during 2011 and 2012. Production is 95% natural gas. Average production during the year was 15,100 Mcf per day of natural gas and 139 bbls per day of condensate. Commodity prices remained strong and were slightly stronger during 2012 than 2011, contributing to increased revenues of $99.6 million in 2012 (2011 - $35.2 million). The netback for 2012 of $8.15 per Mcfe exceeded 2011 by $1.76 per Mcfe, due to increased revenues per Mcfe and lower production expenses per Mcfe.

Funds generated from operations was $33.3 million in 2012, as compared to $5.6 million in 2011, the increase of $27.7 million was primarily attributable to increased production.

Reported Results and Non-Controlling interest

On June 11, 2010, the Company completed the acquisition of an effective 70% ownership interest in KUB-Gas LLC ("**KUB-Gas**"), a Ukrainian company which, as explained further below, owns assets from which all of the Company's revenues are presently produced. All the shares of KUB-Gas are held through KUBGAS Holdings Limited ("**KUB Holdings**"), a private company incorporated in Cyprus, which is 70% owned by the Company.

The Company controls KUB Holdings and is required under International Financial Accounting Standards ("**IFRS**") to consolidate the results of KUB Holdings and KUB-Gas into its financial statements, and in doing so, report 100% of the revenues, royalties and production expenses for KUB Holdings and KUB-Gas within its Statements of Operations and Cash Flow. Similarly, the Company reports 100% of the assets and liabilities of KUB Holdings and KUB-Gas on its consolidated balance sheet. The 30% share of the net assets of KUB Holdings and KUB-Gas attributable to the minority shareholder is then presented by way of a one line entry as "non-controlling interest" within shareholders' equity on the balance sheet. Net earnings and Comprehensive earnings for the year are presented to show the allocation between the Company's 70% shareholdings and the non-controlling 30% shareholder's interest.

Substantially all financial and production analysis in this MD&A reflects the Company's reported 100% interest in the results of KUB Holdings and KUB-GAS.

The table below summarizes the 2012 results reported by the Company in accordance with IFRS, including 100% of KUB Holdings and KUB-Gas as described above, then removes the 30% share allocable to the non-controlling interest to reflect the net results of operations attributable to the Company's 70% economic interest.

(Thousands of US dollars except volume amounts)	As reported	Allocated to non-controlling interest	Net to KOV
Total daily production (Mcfe)	22,762	(6,829)	15,934
Oil and gas revenue	$ 99,588	$ (29,876)	$ 69,712
Royalties	(19,468)	5,840	(13,628)
Oil and gas revenues, net of royalties	80,120	(24,036)	56,084
Production expenses	(12,223)	3,667	(8,556)
General and administrative	(9,498)	16	(9,482)
Transaction costs	(4,193)	-	(4,193)
Stock-based compensation	(1,968)	-	(1,968)
Loss on disposition of assets	(205)	-	(205)
Depletion and depreciation	(25,830)	7,739	(18,091)
Impairment of exploration and evaluation assets	(87,739)	-	(87,739)
Finance income and expenses	(5,791)	1,331	(4,460)
Loss before taxes	(67,327)	(11,283)	(78,610)
Current tax expense	(9,681)	2,904	(6,777)
Deferred tax expense	(1,974)	592	(1,382)
Net loss for the year	$ (78,982)	$ (7,787)	$ (86,769)

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 (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. Capital expenditures and operations are also funded through debt facilities and through internally generated 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**"), and the following material indirect wholly-owned subsidiaries, Kulczyk Oil Brunei Limited **("KOV Brunei")**, Loon Latakia Limited **("Loon Latakia")**, KOV Borneo Limited ("**KOV Borneo**"), AED South East Asia Limited ("**KOV SEA**") and a 70% owned subsidiary, KUB Holdings (formerly, Loon Ukraine Holding Limited) which in turn owns 100% of KUB-Gas, a Ukraine company. The Company also has several non-material indirect subsidiaries and has other non-core investments.

- In Ukraine, the Company has an effective net interest of 70% in five licences, 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 licences currently produce natural gas and condensate. Three of the producing licences are production licences, with two of these having been converted from exploration licences in February 2012 and April 2012. The other two licences are exploration licences 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 the licences in June 2010, and since that time has generated $115.9 million of revenue, net of royalties, in aggregate from these assets.

(Stated in US dollars, except as noted)

- 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 1,123 square kilometre (281,000 acre) area covering certain onshore and offshore areas. The Company held a 40% working interest until December 5, 2011, when the Company acquired an additional 50% working interest and operatorship of Block L;
- The Company previously held a 36% working interest in the Brunei Block M production sharing agreement ("**Block M PSA**") which gave 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 August 2012, the Block M PSA expired.
- 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 the Neconde Energy Limited ("**Neconde**") consortium (the "**Neconde Consortium**") expired. With the expiry of the option, the bridge financing provided to the Company by KI also expired and the ownership of the 20% interest in the Neconde Consortium was transferred to KI.
- The Company's shares were listed for trading on the Warsaw Stock Exchange ("**WSE**") on May 25, 2010.

Asset Overview

UKRAINE

Background

On June 11, 2010, Kulczyk Oil completed an acquisition of an effective 70% ownership interest in KUB-Gas, a Ukrainian registered company with, at that time, 100% ownership interests in three exploration licences and one production licence, plus processing facilities and various well servicing assets, including a 1,000 horsepower Canadian built drilling rig. Two of the exploration licences were converted to production licences in 2012, as further described below. All of the shares of KUB-Gas are held through KUBGAS Holdings Limited, a private entity incorporated in Cyprus, which is 70% owned by the Company. As at December 31, 2012 KUB-Gas owns the following licences in Ukraine.

Production licence	**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 licence		
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 licences in an amount up to 10% of total estimated reserves as approved by the licencor, the Ministry for Environmental Protection of Ukraine, and may not exceed the cap during the exploration status. The Company can convert the exploration licences into production licences which allow unlimited production of gas and gas condensate over the terms of the licences, 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 licence from an exploration licence to a 20-year production license. Conversion of the Makeevskoye licence to a production licence was completed in April 2012. Management has sought regulatory approval to, and expects that the Company will be able to, convert the Krutogorovskoye field exploration licences into production licences.

Update

- Gas production averaged 22,762 Mcf/d (70% net: 15,934 Mcf/d) for the year ended December 31, 2012, and was more than double the average production for 2011 of 6,338 Mcf/d.
- In December 2012, the Company's net production from Ukraine had increased to more than 18.6 MMcf/d with gross production of more than 26.5 MMcf/d from the four producing fields.
- During the year, six wells were drilled.
- The NM-2 well commenced drilling in December 2012, and was subsequently abandoned after being drilled to a depth of 3,150 metres, after wireline logs and other information obtained during the drilling operation did not indicate any prospective zones.
- In November 2012, the M-20 well commenced commercial production at an initial rate of 6.2 MMcf/d. The well commenced drilling on July 6, 2012 and was drilled to a total depth of 2,000 metres in early August.
- During 2012, the Company took delivery of a new snubbing unit and performed one successful dual completion during the fourth quarter, on the O-18 well. Production from the two zones in the O-18 wells is expected to commence late in the first quarter of 2013.
- The K-7 well commenced drilling September 11, 2012 and was cased to a total depth of 3,206 metres in early November 2012. Wireline logs indicate up to 5 potential gas-bearing zones. Completion operations are currently in progress with the expectation of being on production in the third quarter of 2013.
- In fourth quarter 2012, the M-16 well was cased to its total depth of 4,300 metres and seven potential gas bearing zones were identified. Testing of the well will be carried out during March 2013. The M-16 well commenced drilling on August 8, 2012, and is the deepest well drilled by the Company to date.
- On August 3, 2012, the M-21 well commenced commercial production at an initial rate of 1.7 MMcf/d. The well commenced drilling on February 6, 2012 and was drilled to a total depth of 2,210 metres.
- In first half of 2012, 225 square kilometres of new 3D seismic new data in the North Makeevskoye field was acquired and processed.
- On May 7, 2012, drilling commenced on the NM-1 well. By 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. Testing on the NM-1 well did not produce gas despite the logs indicating gas-charged intervals. Stimulation options, including frac'ing are being evaluated.
- On March 27, 2012, the 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.

Future plans

KUB-Gas has plans to drill up to six new wells and continue the workover and frac'ing programs in 2013 to further develop the five fields.

BRUNEI - BLOCK L

Background

Kulczyk Oil, through two wholly-owned subsidiaries, and its 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 required under the terms of the Block L PSA, the Contractor relinquished approximately half of the 2,264 square kilometres initially granted in the PSA. The Block L PSA provides for an exploration period of six years from the date of the agreement, 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 the interest of a company that had previously farmed in for an interest in the block. 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 its working interest share 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 well was subsequently 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 complete and the Contractor has 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 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 has exceeded the minimum expenditure requirement as at December 31, 2012 in meeting the work commitments for Phase 2, which expires on August 27, 2013.

In December, 2011, the Company acquired AED's subsidiary, AED South East Asia Ltd., which holds a 50% operating interest in the Block for $200,000 plus assumption of AED's unpaid obligations to the joint venture. The Company now holds an aggregate 90% interest in the Block, and is the Operator. The Company, through the joint venture, was successful in obtaining an extension of the licence term to August 27, 2013 as well as revising the work commitments to correspond with the current work plan.

Update

During 2012, the Company acquired and processed 145.4 square kilometres of 3D seismic data in the West Jerudong Field area and an additional 46.4 square kilometres of 3D seismic data in the area updip from and to the northeast of the Lukut-1 well drilled in 2010. Interpretation of the seismic data provided the drilling locations, for the Lukut Updip-1 and Luba wells for the 2013 drilling program.

Subsequent to year end, the Company has entered into an agreement with PT Energi Tata Persada ("**PT Energi**"), a drilling company based in Jakarta, Indonesia, for the ETP-03 drilling rig. The award of the contract for the provision of drilling services by PT Energi has been approved by PetroleumBRUNEI.

All other material contracts to enable the drilling of the two well drilling program have been awarded and operational staff to execute the drilling program are now in place.

Future Plans

The Company intends to drill two onshore wells prior to August 2013, at the Lukut Updip-1 and Luba prospects, in order to satisfy the minimum work commitments under Phase 2. The Lukut Updip-1 well is anticipated to be spud during April 2013.

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 December 31, 2012, the Company has spent $40.8 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 Block M exploration period was six years from the date of the Block M PSA, August 27, 2006, and was divided into Phase 1 and Phase 2 which could run concurrently. The Contractor 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 remaining commitment for Phase 1 was a well to 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 required 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 required a minimum expenditure of US$7.3 million during Phase 2. The Company's share of the minimum spend was $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.

Update and Future Plans

In August 2012, the PSA with PetroleumBRUNEI expired after efforts by the joint venture partners to obtain an extension to the terms of the PSA were unsuccessful.

As a result of the expiration of the PSA, the Company has impaired its Block M exploration and evaluation assets, in an amount of $85.5 million, which includes the Company's share of the penalty potentially payable on expiry of the PSA of $6.0 million relating to work commitments.

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 licence extensions in phases 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. 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 $3.5 million by

December 31, 2011. Because of the various sanctions imposed against Syria, the bank guarantees were unable to be renewed, and accordingly, the bank guarantee expired on May 28, 2012 and the cash posted as security therefore returned to the Company during the third quarter, 2012.

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 first exploration well, Itheria 1 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 1 will be assessed to review the prospectivity of the deeper objectives in the well and in the nearby Bashaer prospect. A difficult operating environment resulted in an indefinite suspension of the Company's exploration activity in Syria.

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. Impairment of the exploration asset of $8.7 million and the write-off of the investment of $1.5 million in Ninox 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 conditions arising from the current instability, including difficult operating conditions and the inability to move funds into the country, rendering performance of the Company's obligations under the contract impossible and all of the circumstances beyond the Company's reasonable control.

As at December 31, 2012, the Company's Syrian assets are fully impaired as the project remains suspended. The Company continues to monitor the situation, but no definite plans can be made with respect to the timing of a potential return to Syria to continue with the exploration of Block 9.

NIGERIA

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

(Stated in US dollars, except as noted)

Oil and Gas Reserves

	Oil & Liquids (Mbbl)			Natural Gas (MMcf)			Total (Mmcfe)		
	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable
December 31, 2011	180	126	306	26,166	10,855	37,021	27,246	11,611	38,857
Acquisitions	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	6	12	18	882	1,029	1,911	917	1,100	2,017
Infill Drilling	50	69	118	7,574	5,299	12,873	7,873	5,710	13,583
Technical Revisions	(2)	66	64	791	3,955	4,746	778	4,353	5,131
Discoveries	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	22	14	36	1,015	1,245	2,260	1,144	1,330	2,474
Production	(51)	-	(51)	(5,502)	-	(5,502)	(5,808)	-	(5,808)
December 31, 2012	204	287	491	30,926	22,383	53,309	32,149	24,103	56,253

As a result of the 2012 drilling program in the Ukraine, 23.2 Bcfe of new proved plus probable ("**2P**") reserves were added and 5.8 Bcfe's were produced during the year leaving an ending total of 56.3 Bcfe's in 2P reserves at year end, a material increase of 45% over the December 31, 2011 ending balance of 38.9 Bcfe's. During 2012, the Company drilled exploration and development wells which determined the existence and commercial capability of new productive zones, and further defined the extent and size of current productive zones in existing wells.

The Company's plans for 2013 are to continue developing its reserves through further drilling, and completion techniques including stimulation treatments and dual completion.

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.

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.

KUB-Gas generates positive operating cash flow, which, combined with the European Bank for Reconstruction and Development ("**EBRD**") financing is sufficient to support the significant capital investment program in Ukraine.

Throughout 2012, the Company enhanced production in Ukraine, oversaw the processing and interpretation of the seismic acquisition in Brunei Block L and planned drilling for Block L.

To date, the acquisition and development of the Company's assets has 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 $53.5 million in the aggregate. None of the exploration properties outside of Ukraine have generated revenues.

With the expiry of the PSA in Brunei Block M, the Company impaired $85.5 million in exploration and evaluation assets, including a $6.0 million penalty amount potentially payable for not meeting the minimum work commitments at the time the PSA expired.

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 exchange in London, UK and that it intended to raise new equity capital there. The Company continues to review alternative strategies, including the listing of its common shares on AIM or another recognized stock market.

Since December 31, 2012 the Company made an early repayment of $10 million on the EBRD loan from cash generated by operations in Ukraine, in addition to scheduled repayments.

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 and Brunei 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. In Ukraine, the selling price of natural gas is driven partly by political issues between Ukraine and Russia.

In Syria, the current political unrest, resulting in continued sanctions by the United States, the European Union, the Arab League and Canada, has reduced the availability of services and equipment and the project remains suspended.

Funds from Operations

(Thousands of US dollars except per unit and volume amounts)

	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Funds from operations	$ 9,399	$ 5,559	$ 33,259	$ 5,622
Funds from operations per share	$ 0.02	$ 0.01	$ 0.07	$ 0.01

As noted in the non-IFRS measures section of this MD&A, the Company uses funds from operations as a key performance indicator to measure the ability of the Company to generate cash from operations to fund future exploration activities.

Funds from operations increased by $3.8 million to $9.4 million for the fourth quarter of 2012 and by $27.6 million to $33.3 million for full year 2012 (2011 - $5.6 million). The increase in funds from operations for the full year is attributable to increased production and commodity prices ($64.4 million), partially offset by increased royalties ($12.6 million), production costs ($5.0 million), general and administrative costs ($0.5 million), transactions costs ($3.1 million), tax ($7.1 million), interest and other ($3.2 million) and an accrued penalty relating to Block M work commitments ($6.0 million).

The following table reconciles the cash flow from operating activities to funds from operations:

(Thousands of US dollars)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Cash flow from operations	$ 14,943	$ 2,766	$ 38,747	$ 1,155
Changes in non-cash working capital	(5,544)	2,793	(5,488)	4,467
Funds from operations	$ 9,399	$ 5,559	$ 33,259	$ 5,622

Oil and Gas Netback

	Three months ended December 31,					
	2012			2011		
	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**
Average daily sales volumes (net to KOV)	16,832	132	**17,621**	8,443	87	**8,967**
Financial						
Revenue	$ 11.62	$ 98.04	**$ 11.80**	$ 11.75	$ 96.84	**$ 12.13**
Royalty expense	(2.14)	(36.36)	**(2.32)**	(1.95)	(52.29)	**(2.37)**
Royalty as a % of revenue	*18.4%*	*37.1%*	***19.5%***	*16.6%*	*54.0%*	***19.5%***
Production expenses	(1.34)	-	**(1.28)**	(1.16)	-	**(1.09)**
Netback	$ 8.12	$ 61.68	**$ 8.20**	$ 8.64	$ 44.55	**$ 8.68**

	Year ended December 31,					
	2012			2011		
	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**
Average daily sales volumes (net to KOV)	15,098	139	**15,934**	6,006	55	**6,338**
Financial						
Revenue	$ 11.71	$ 98.91	**$ 11.95**	$ 10.25	$ 95.88	**$ 10.66**
Royalty expense	(2.12)	(37.53)	**(2.34)**	(1.70)	(50.37)	**(2.09)**
Royalty as a % of revenue	*18.1%*	*37.9%*	***19.5%***	*16.6%*	*52.5%*	***19.6%***
Production expenses	(1.55)	-	**(1.47)**	(2.31)	-	**(2.19)**
Netback	$ 8.04	$ 61.38	**$ 8.15**	$ 6.23	$ 45.51	**$ 6.39**

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

Netback increased substantially to $8.15 per Mcfe in 2012 compared to $6.39 per Mcfe in 2011, due to higher realized prices and lower production expenses. The netback for the fourth quarter of 2012 of $8.20 per Mcfe was slightly down from the fourth quarter of 2011, due to slightly lower realized prices and higher production expenses.

Sales revenue, net of royalties

(Thousands of US dollars)	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Oil and gas revenue	$ 27,338	$ 14,299	$ 99,588	$ 35,227
Royalty expense	(5,367)	(2,789)	(19,468)	(6,890)
Revenue, net of royalties	$ 21,971	$ 11,510	$ 80,120	$ 28,337

Oil and gas revenue increased by 91% in the fourth quarter of 2012 as compared to the fourth quarter of 2011, driven by a 97% increase in volume partially offset by a 3% decline in the average realized price.

For the full year 2012, oil and gas revenues increased to $99.6 million compared to $35.2 million in 2011, reflecting increased production and an increase in the average realized price of 12 %.

Production volumes increased by 97% in the fourth quarter of 2012 to 17,621 Mcfe/d, net to KOV, compared to 8,967 Mcfe/d in the comparable period of 2011. The increase in 2012 reflects six new wells that were tied-in and brought onto production during 2012 and numerous wells that have been worked over.

Similar trends are noted on a full year basis, with production more than doubling in 2012 to 15,934 Mcfe/d, net to KOV, as compared to 6,338 Mcfe/d in 2011.

Commodity prices were stronger in 2012 compared to 2011, with a realized natural gas price of $11.71 per Mcf and condensate of $98.91 per bbl, compared to $10.25 and $95.88, respectively, for 2011. 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 2012 compared to 2011 as a result of changes in prices charged by Russia at the border.

Royalty rates were set each month by the government of Ukraine based primarily on prevailing market prices and averaged 19.5% in 2012 and 2011. Commencing January 2013, royalty rates have been set at rates of 25% for natural gas and 39 % for condensate.

Production expenses

(Thousands of US dollars except per unit amounts)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Production expenses	$ (2,970)	$ (1,286)	$ (12,223)	$ (7,228)
Per Mcfe	$ (1.28)	$ (1.09)	$ (1.47)	$ (2.19)

Production expenses, on an absolute basis, have increased 69% to $12.2 million in 2012 from $7.2 million in 2011, due to increased chemical, workover and repair and maintenance costs and higher utility expense. However, the increase in the costs was substantially less than the increase in production, resulting in lower costs per unit in 2012 compared to 2011.

General and Administrative

(Thousands of US dollars except per unit amounts)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
General and administrative	$ (1,599)	$ (1,559)	$ (9,498)	$ (9,021)
Per Mcfe	$ (0.69)	$ (1.32)	$ (1.14)	$ (2.73)

General and administrative ("**G&A**") costs for the fourth quarter of 2012 were comparable with the fourth quarter of 2011 at $1.6 million.

G&A costs for the year ended December 31, 2012 were $9.5 million (2011 - $9.0 million) an increase of 5% from 2011 as more costs were incurred to support the growth of the Company. G&A costs incurred by the Company are expensed, with some costs directly related to exploration and development assets being capitalized.

Transaction Costs

(Thousands of US dollars except per unit amounts)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Transaction costs	$ (903)	$ (19)	$ (4,193)	$ (1,047)
Per Mcfe	(0.39)	(0.02)	(0.50)	(0.32)

Transaction costs are project related expenditures and for 2012 include costs associated with the potential AIM listing, costs for potential acquisitions and a recovery from KI of $1.0 million for the previously expensed Neconde acquisition costs.

Stock based compensation

(Thousands of US dollars except per unit amounts)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Stock based compensation	$ (336)	$ (934)	$ (1,968)	$ (2,672)
Per Mcfe	$ (0.15)	$ (0.79)	$ (0.24)	$ (0.81)

Stock based compensation was $0.3 million (2011 - $0.9 million) for the fourth quarter of 2012 and was $2.0 million (2011 - $2.7 million) for the year ended December 31, 2012. The decrease in this expense reflects the larger number of options granted and immediately vested in prior years, partially offset by the cost of revaluing certain options.

Depletion and Depreciation and Impairment

(Thousands of US dollars except per unit amounts)	Three months ended December 31, 2012	Three months ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Depletion and depreciation ("**D&D**")	$ (5,768)	$ (3,908)	$ (25,830)	$ (7,596)
Impairment	$ (2,451)	$ (8,664)	$ (87,739)	$ (8,664)
D&D per Mcfe	$ (2.49)	$ (3.32)	$ (3.10)	$ (2.30)

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 depletion and depreciation expense in the fourth quarter of 2012 was $5.8 million compared to $3.9 million in the fourth quarter of 2011, an increase of 90% attributable to increased production levels, offset by lower depletion rates per Mcfe. The depletion rate per Mcfe declined to $2.49 in the fourth quarter of 2012 from $3.32 in the comparable period of 2011, due to the increase in reserve volumes as at December 31, 2012, which are used to calculate the fourth quarter's depletion charge.

Depletion and depreciation expense for the year ended December 31, 2012 was $25.8 million (2011 - $7.6 million). The overall annual depletion rate per Mcfe increased in 2012 to $3.10 from $2.30 in 2011. The increase year over year is attributable to the change in the reserves occurring as at December 31, 2011, which adjusted the fourth quarter 2011 depletion calculation and the first three quarters of 2012. The first three quarters' depletion in 2011 were based on the 2010 reserve report. The significant majority of the net book value was attributed to the Olgovskoye field, based on the estimated reserves at the date of the KUB-Gas acquisition in 2010. All new wells drilled in 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 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 was partially offset by the increase in reserves in the Makeevskoye field, the net book value of Olgovskoye was unchanged, which, when applied against a smaller reserve base significantly increased the D&D rate for both the Olgovskoye field and the Company in total for the fourth quarter of 2011 and the first three quarters of 2012.

During 2012, given the expiry of the Block M PSA, the Company recognized an impairment charge of $85.5 million, which included a $6.0 million penalty potentially payable relating to work commitments not met.

In 2011, the Company concluded there were significant indicators of impairment in regards to the exploration assets in Syria and accordingly the carrying value should be written off. An impairment expense of $8.7 million was recorded in 2011 and a further $2.2 million recorded in 2012.

Interest expense and accretion

(Thousands of US dollars)	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Interest on long-term debt	$ (2,489)	$ (1,324)	$ (5,542)	$ (1,999)
Interest on convertible note payable and convertible	(988)	(328)	(2,392)	(900)
Accretion	(127)	-	(153)	(962)
	$ (3,604)	$ (1,652)	$ (8,087)	$ (3,861)

Interest and accretion expense was $3.6 million (2011 - $1.7 million) for the fourth quarter of 2012 and was $8.1 million (2011 - $3.9 million) for the year ended December 31, 2012. The increase in the current year was mainly a result of higher debt levels in 2012.

The EBRD loan was finalized in the second quarter 2011 and was drawn to $23.0 million by the end of 2011, with the first repayment of $1.8 million occurring in July 2012. This increase in debt, plus an increase in the fees due based on incremental revenues, resulted in a significant increase in interest on long-term debt during 2012.

The interest on the note payable and debentures increased in 2012 due to higher debt levels being outstanding for a greater period of time. The KI and Radwan debentures were first drawn down in the third quarter of 2011 and were outstanding for approximately eight months of 2012, with conversion occurring in August 2012. A new KI loan was issued in June of 2012, of which $10 million had been drawn by December 31, 2012. Refer to the debt section for further details on these loans.

Summarized Balance Sheet ($'000's)

(Thousands of US dollars)	As at December 31,		
	2012	2011	2010
Total current assets	$ 40,305	$ 19,284	$ 18,454
Total non-current assets	$ 147,404	$ 200,991	$ 178,871
Total assets	$ 187,709	$ 220,275	$ 197,325
Total current liabilities	$ 39,088	$ 18,751	$ 14,114
Total non-current liabilities	$ 25,171	$ 26,997	$ 4,992
Total liabilities	$ 64,259	$ 45,748	$ 19,106
Total share capital	$ 231,516	$ 205,445	$ 192,520
Total equity	$ 123,450	$ 174,527	$ 178,219

Total Assets

Total assets as at December 31, 2012 were $187.7 million compared to $220.3 million as at December 31, 2011. The decrease reflects an impairment of Brunei Block M exploration assets of $85.5 million, partially offset by capital expenditures in the current year and increased cash due to KUB-Gas' operating cash flow.

Total Liabilities

Total liabilities as at December 31, 2012 were $64.3 million compared to $45.7 million as at December 31, 2011 primarily due to the increased accounts payable of $18.0 million, which includes a $6.0 million potentially payable for the Brunei Block M penalty and the timing of payments to vendors, plus the advancement of $10.0 million under the KI loan, and is partially offset by the conversion of convertible debentures principal and accrued interest of $11.0 million.

KUB-Gas was in compliance with all three of the EBRD's financial ratio debt covenants at December 31, 2012.

Summarized Cash Flow ($'000's)

(Thousands of US dollars)	Three months ended December 31,				Year ended December 31,			
	2012		2011		2012		2011	
Net cash generated by operating activities	$	14,943	$	2,766	$	38,747	$	1,155
Net cash provided by financing activities	$	5,000	$	8,255	$	21,410	$	32,259
Net cash used in investing activities	$	(11,036)	$	(12,505)	$	(37,154)	$	(30,721)

Operating Activities

Operating activities generated $38.7 million of cash flow in 2012 compared to cash generated of $1.2 million in 2011. Positive operating cash flow was generated in Ukraine, with the increase attributable to increased production volumes and higher commodity prices in 2012 compared to 2011. Cash flow generated from Ukraine was sufficient to cover the operating cash outflows for the rest of the Company.

Financing Activities

Net cash from financing activities decreased in 2012 compared to 2011. In 2012, the financing activities represented draws on the KI and Radwan convertible debentures ($13.0 million) and the KI loan ($10.0 million), partially offset by the first repayment on the EBRD loan ($1.8 million). During 2011, cash from financing included the EBRD loan ($23.0 million) and the KI convertible debentures ($10.5 million).

Investing Activities

Net cash used in investing activities increased in 2012 compared to 2011. The current year reflects the development activity in Ukraine ($36.7 million) and the exploration activity in Brunei ($20.7 million). In 2011 the Company's development activity consisted in exploration activities in the Ukraine ($30.3 million), Brunei ($4.3 million) and Syria ($3.6 million).

Capital Expenditures

During 2012, the Company incurred $29.6 million and $27.4 million, respectively, of capital expenditures on exploration and evaluation assets and property, plant and equipment, including costs incurred on the following projects:

- in Ukraine the drilling of the NM-2, M-20, K-7, M-16, NM-1, M-21 wells, 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 and processing of 3D seismic at Block L in Brunei
- the development of the Brunei Block L drilling program

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 these assets, the 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. The exploration assets in Brunei's Block M and Syria's Block 9 were fully impaired as at December 31, 2012.

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

(Thousands of US dollars)	As at December 31, 2012	As at December 31, 2011
Brunei		
Block L	$ 40,820	$ 21,876
Block M	-	77,749
Total Brunei	40,820	99,625
Ukraine	6,538	4,943
	$ 47,358	$ 104,568

Investments

Jura Energy Corporation ("Jura")

The Company has a 1.1% shareholding in Jura. Jura, a public company traded on the Toronto Stock Exchange, completed a share acquisition in the third quarter of 2012, which reduced the Company's interested in Jura from a 5.7% holding. The market value of the investment at December 31, 2012 was $225,533 (December 31, 2011 - $305,158).

Ninox Petroleum Pty Ltd. ("Ninox")

With the acquisition of Triton Hydrocarbons Pty Ltd. ("**Triton**") 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. Ninox's suite of assets includes a number of oil and gas interests in addition to the 20% beneficial interest they own in Syria Block 9. Ninox is a private company and accordingly, the market value of its shares, and thus the value of the Company's investment therein is not practically determinable; as such and concurrent with the Company's decision to fully impair the exploration assets in Syria, the Company also fully impaired the carrying value of Ninox at December 31, 2011.

Karl Thomson Holdings Ltd

When the Company acquired Triton this included an investment in the common shares of Karl Thomson Holdings Ltd., a company whose common shares are traded on the Hong Kong Stock Exchange. As at December 31, 2012, the carrying value of the investment was $nil (December 2011 - $103,810). The Company had an equal and offsetting payable for this investment.

Mauritania International Petroleum Inc. ("MIPI")

The Company acquired a 35% interest in MIPI as part of the Triton acquisition. MIPI holds a 100% interest in four contiguous licenses located offshore Mauritania, but conducted no operations during the years ended December 31, 2012 and 2011.

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 was initially due to mature on December 31, 2012. In December 2012, the terms of the loan were amended. Under the amended and restated agreement, the loan's maturity date has been extended to December 31, 2013. In addition, under the amended and restated agreement, the debt is now convertible and the lender is able to exercise its option to convert the outstanding principal and accrued interest to the extent that the lender will not own less than 33% or more than 66% of the Company's common shares after the conversion is completed. The loan is convertible at the volume weighted average of the Company's share price for the five days preceding the conversion date. In addition, the loan converts automatically into common shares if the Company lists on certain exchanges prior to the maturity date.

At December 31, 2012, the Company had drawn $10.0 million on this loan. Subsequent to year end, the final $2.0 million was drawn on this loan.

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 a fee based on incremental revenues. The loan proceeds are to be advanced in two tranches, with $23.0 million having been advanced in 2011 and the remaining $17.0 million became available to be advanced in 2012 once the Olgovskoye license and the Makeevskoye license were converted to production licenses. The loan balance outstanding is to be repaid in thirteen equal semi-annual payments that commenced July 2012. Kulczyk Oil, as the indirect majority owner of KUB-Gas, provided a guarantee for the entire amount of the loan outstanding from time to time.

At December 31, 2012 $21.2 million of principal and interest was outstanding (December 31, 2011: $23.0 million). In July 2012, $1.8 million of the loan was repaid and $3.5 million is reported as a current liability as at December 31, 2012.

Subsequent to year end, the Company made a prepayment of $10.0 million under the terms of the EBRD loan agreement in addition to the second scheduled repayment of $1.8 million.

KI – Radwan Convertible Debentures

In August 2011, the Company entered into unsecured convertible debenture agreements with KI and Radwan Investments GmBH ("**Radwan**"). The total amount available under the debentures was $23.5 million, interest was at a rate of 8.0% per annum, and the debentures matured on August 11, 2012. Notices of conversion were received prior to August 11, 2012 and shortly thereafter, the $23.5 million principal and all accrued interest were converted to 60,499,029 common shares. The convertible debentures also included a provision for an implied additional 12.0% in interest which was paid in Kulczyk Oil shares upon conversion.

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, other than the cash generated from its Ukraine operations, have been debt capital raises, principally the funds from its debenture holders, the KI loan and the EBRD loan. 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 Ukraine plus the remaining EBRD debt facility are sufficient to completely support the intensive capital investment program currently in progress in Ukraine.

As is the case with many exploration companies, 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 $0.5 million for the year ended December 31, 2012.

At December 31, 2012, the Company has debt consisting of a note payable which has fixed interest rates and one loan which has a variable rate, but with the option to convert to a fixed rate. At December 31, 2012, approximately 67% 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 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 when required 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.

Dividends can be paid out of the Ukrainian subsidiary, KUB-Gas, providing that the terms and conditions of the EBRD Loan agreement are met. These terms do restrict the ability of KUB-Gas to pay dividends as such payments are subject to maintaining certain covenant restrictions, namely a current ratio test. During 2012, the Ukrainian subsidiary successfully declared and paid a dividend to its parent Company.

As an exploration and development company without sufficient internally generated cash flow to fund the exploration program, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company, or that actual exploration expenditures may exceed those planned. Alternatives available to the Company to manage its liquidity risk include deferring planned capital expenditures that exceed amounts required to retain concession licences, farm-out arrangements and securing new equity or debt capital.

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, 2012.

Working Capital

(Thousands of US dollars)	As at December 31, 2012	As at December 31, 2011
Current assets	$ 40,305	$ 19,284
Current liabilities	39,088	18,751
Working capital	$ 1,217	$ 533

The Company has positive working capital of $1.2 million as at December 31, 2012 (December 31, 2011: $0.5 million).

Related Party Transactions

Nemmoco Petroleum Corporation ("**Nemmoco**"), a private company of which 37.5% is owned by Timothy M. Elliott, an officer and director of the Company, provides certain personnel and general, accounting and administrative services to the Company at its offices in Dubai on a cost-sharing basis. For the year ended December 31, 2012, the fees totalled $712,224 (2011 - $624,780). At December 31, 2012, $25,538 was owed to Nemmoco (2011 - $52,065).

Loon Energy Corporation ("**Loon Energy**"), a publicly traded Canadian corporation, has no employees and management and administrative services are provided by the management and staff of Kulczyk Oil. For the year ended December 31, 2012, these fees totalled $12,605 (2011 - $12,600). At December 31, 2011, Loon Energy owed $12,605 (2011 – $8,400) to Kulczyk Oil for these services. Certain expenditures of Loon Energy are paid for by Kulczyk Oil and Loon Energy reimburses Kulczyk Oil for these expenditures. As at December 31, 2012, Loon Energy owed $85,508 (2011 – $35,388) for these costs. Kulczyk Oil and Loon Energy are related as they have four common directors and officers and the same principal shareholder.

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, the parent company of Loon Peru Limited, had begun the process of replacing the Loon Guarantee, however the block to which the guarantee related to is in the process of being relinquished and is not currently anticipated that the guarantee will be replaced.

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.

The Company provided services pursuant to a shared services agreement to Jura, a public company in which the Company owned 1.1% of the outstanding and common shares at December 31, 2012. In 2012, the Company charged fees and associated costs to Jura totalling $56,317 (2011- $116,780). At December 31, 2012 $nil (2011 - $10,299) was due from Jura. Until the third quarter of 2012, three directors of the Company were directors of Jura, and the Chief Financial Officer of the Company was also the Chief Financial Officer of Jura. During the third quarter of 2012, Jura completed an acquisition at which point the board of directors was reconstituted and a change in management occurred, the result of which is one of the directors and the CFO of the Company are no longer associated with Jura. The shared services agreement was terminated in the third quarter of 2012 and now only office rental costs are charged to Jura.

At December 31, 2012, KI owned 49.99% 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 year ended December 31, 2012 the Company paid $nil to KI (2011 - $210,000) and $nil to KH (2011 - $90,000) respectively. There were no amounts payable to KI or KH in the comparative period.

In 2011, certain expenditures of Neconde were paid by Kulczyk Oil and were reimbursable by Neconde. During 2012, $1.0 million was received from KI for these costs and at December 31, 2011 $nil was owed to the Company.

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, 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.

In August 2010, the Contractor elected to proceed to the Phase 2 exploration period. The minimum work obligations for Phase 2 include i) 130 square kilometres of onshore 3D seismic; ii) 13.5 square kilometres of onshore 3D swath data; iii) 13 kilometres of onshore 2D seismic, (iv) acquire and process not less than 34.5 square kilometres of onshore 3D seismic and 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. The Company has exceeded the minimum spend commitment and the remaining work commitment is to drill two exploration wells, the first of which is scheduled to start drilling in April 2013.

The Company had posted 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. In the third quarter 2012, the Company received notification from PetroleumBrunei confirming that the minimum spend commitments related to the Block L PSA have been satisfied and that the letter of credit is no longer required. Accordingly, the letter of credit has been cancelled.

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.

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, subject to certain conditions, 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 and was suspended in October 2011 due to unfavourable operating conditions in Syria.

Effective July 16, 2012, the Company, in its capacity as Operator of Syria's Block 9, declared a Force Majeure event due to conditions arising from the current instability, including difficult operating conditions and the inability to move funds into the country, 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, KUB-Gas 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, KUB-Gas' potential capital expenditures relating to qualifying activities on gas and gas condensate fields may reach $45 million during the period from 2013 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 has drilled two wells in 2012 with a further four wells expected to be drilled over the next three 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 $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.

Selected 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 except per unit amounts and volumes)

	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Oil and gas revenue	$ 27,338	$ 25,717	$ 24,713	$ 21,820
Netback ($/Mcfe)	$ 8.20	$ 8.05	$ 7.81	$ 8.59
Earnings (loss) for the period	$ 1,065	$ (83,348) (2)	$ 1,275	$ 2,026
Per share - basic and diluted	$ 0.00	$ (0.18)	$ 0.00	$ 0.00
Average daily production (Mcfe)(1)	17,621	16,428	15,797	13,865

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Oil and gas revenue	$ 14,299	$ 10,871	$ 5,224	$ 4,833
Netback ($/Mcfe)	$ 8.68	$ 5.11	$ 4.43	$ 4.58
Loss for the period	$ (9,282) (3)	$ (2,437)	$ (3,308)	$ (1,889)
Per share - basic and diluted	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.00)
Average daily production (Mcfe)	8,967	5,451	4,378	4,460

(1) Production net to KOV
(2) Includes $85.1 million impairment charge related to Brunei Block M
(3) Includes $8.7 million impairment charge related to Syria Block 9

Selected Annual Information

The following tables set out selected annual information extracted from the audited consolidated financial statements.

(Thousands of US dollars, except share data and volumes)	Year ended December 31,					
	2012		2011		2010	
Sales revenue, net of royalties	$	80,120	$	28,337	$	7,469
Net loss	$	(78,982)	$	(16,916)	$	(18,256)
Net loss per share - basic	$	(0.18)	$	(0.04)	$	(0.06)
Weighted average number of shares		444,522,984		409,460,443		320,302,911
Average daily production volumes (Mcfe)[1]		15,934		6,338		3,838

(1) Production net to KOV

Share Data

The Company is authorized to issue an unlimited number of common shares of which 481,756,729 common shares and 41,294,000 options to purchase common shares were outstanding as at December 31, 2012. There has been no change to the number of common shares between December 31, 2012 and March 20, 2013.

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

During August 2012, the KI and Radwan convertible debentures of $23.5 million principle and all accrued interest were converted to 60,499,029 common shares at an average price of $0.43 per share.

During August 2011, the parties to the MWG debenture agreed to convert approximately $10.7 million of principal and interest outstanding under the debenture into 18,501,037 common shares issued at an average price of $0.5767 per share.

Summary of common shares outstanding:

(Thousands of US dollars, except share data)	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
Issued on converstion of convertible debentures	60,499,029		25,794
Balance December 31, 2012	481,756,729	$	231,516

During 2012, 2,227,667 options were forfeited, 2,460,000 expired and 453,333 share purchase options were exercised at an average exercise price of $0.40 per share.

(Stated in US dollars, except as noted)

The following table summarizes information about common share purchase options outstanding and exercisable at December 31, 2012:

	Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$	0.40	475,000	475,000	0.76
$	0.40	75,000	75,000	1.13
$	0.69	1,660,000	1,660,000	1.37
$	0.60	10,250,000	10,250,000	1.71
$	0.56	14,193,000	14,193,000	2.40
$	0.40	42,000	42,000	2.77
$	0.47	970,000	646,667	3.21
$	0.40	150,000	100,000	3.36
$	0.40	698,000	465,333	3.59
$	0.40	7,621,000	5,080,667	3.93
$	0.38	900,000	300,000	4.04
$	0.40	250,000	83,333	4.06
$	0.51	120,000	40,000	4.20
$	0.49	530,000	176,667	4.34
$	0.49	180,000	60,000	4.35
$	0.41	900,000	300,000	4.59
$	0.43	2,100,000	700,000	4.62
$	0.42	60,000	20,000	4.71
$	0.40	120,000	40,000	4.86
$	0.52	41,294,000	34,707,667	2.75

At various dates throughout 2012, the Company granted 5,190,000 share purchase options at a weighted price of $0.44 per share to certain directors and to certain employees of Kulczyk Oil. These share purchase options have a five-year term and vested one-third immediately, and one-third on each of the first and second anniversary of the grant date. Of the options granted, 2,100,000 options were granted to directors and officers to replace the same number of options that had expired immediately prior to the granting.

(Stated in US dollars, except as noted)

As at the date of issuing this report, the following are changes to executives and officers shares owned and options granted since December 31, 2012, up to the date of this report:

Name of Director/Executive Officer/Key Person	Options held as at December 31, 2012	Changes to Option Ownership in 2012		Shares owned at at December 31, 2012
		Options granted	Options Expired/Forfeited	
Timothy M. Elliott	7,695,000	500,000	(500,000)	5,055,870
Norman W. Holton	6,045,000	500,000	(500,000)	3,338,912
Manaj Narender Madnani	1,210,000	-	-	375,681
Michael A. McVea	800,000	300,000	(300,000)	100,000
Dariusz Mioduski	1,210,000	-	-	-
Gary King	700,000	-	-	67,500
Stephen Akerfeldt	710,000	-	-	-
Helmut Langanger	500,000	-	-	-
Jock M. Graham	6,275,000	800,000	(800,000)	1,462,581
Edwin A. Beaman	1,870,000	-	-	556,102
Paul H. Rose	2,490,000	-	-	243,307
Trent A. Rehll	2,000,000	-	-	170,315
Jakub Korczak	990,000	-	-	-
Alec Silenzi	900,000	900,000	-	100,000
	33,395,000	3,000,000	(2,100,000)	11,470,268

As at the date of issuing this report, management is only aware of two shareholders holding more than 5% of the common shares of the company. KI owns 49.99% and Radwan owns 5.53% of the common shares issued at December 31, 2012.

Risk Management

The Company and its business, future prospects, financial condition and 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 rate on the convertible loan is 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 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 December 31, 2012 include receivables from joint venture partners that are anticipated to be applied against future capital expenditures, sales revenue receivable for production in the Ukraine and receivables pertaining to commodity taxes recoverable from the federal government of Canada.

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. 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 December 31, 2012 the Company's primary currency exposure related to Canadian dollar ("**CAD**") and Ukraine hryvnia ("**UAH**"). The following table summarizes in U.S. dollars the Company's foreign currency exchange risk for each of the currencies indicated.

	December 31, 2012		December 31, 2011	
(Thousands)	CAD	UAH	CAD	UAH
Cash and cash equivalents	124	127,488	249	71,655
Accounts receivable	267	11,759	424	3,579
Prepaid expenses	248	2,796	16	5,837
Accounts payable and accrued liabilities	(422)	(92,943)	(435)	(26,867)
Net foreign exchange exposure	217	49,100	254	54,204
US $ equivalent at period end exchange rate	$ 218	$ 6,143	$ 249	$ 6,683

For the year ended December 31, 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 $10,000. Earnings are not impacted by fluctuations in the Ukraine hryvnia as translation gains and losses are included in other comprehensive income (loss).

Commodity Price Risk

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

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

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

Fair value

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

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.

2013 Outlook

In 2013, in Ukraine, the Company intends to drill up to six new wells, recomplete or workover up to six wells, and construct pipelines to tie-in wells as needed. Management forecasts that the Company will exit the 2013 year with a production rate higher than the 2012 year-end exit rate as a result of these projects and from bringing on-stream production resulting from the 2012 capital program.

In Brunei Block L, two wells are planned in order to meet minimum work commitments. The first well is planned to spud during April 2013.

In Syria, the Company will continue to closely monitor the social and political situation in the country 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 in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

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

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 consolidated financial statements is included in the following notes to those consolidated financial statements as at and for the year ended December 31, 2012:

- Note 3 – Reserves estimates and depletion
- Note 4 – Determination of fair values
- Note 12 – Convertible debentures (fair value measurement)
- Note 17 – Income taxes
- Note 18 – Stock options (measurement of share-based payments)

Non-IFRS Measures

The financial information presented in this MD&A has been prepared in accordance with IFRS except for the terms "funds from operations", "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 funds from operations, 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 "funds from operations", "netback" and "working capital" as presented earlier in this document.

Future Changes in Accounting Policies

IFRS 11 Joint arrangements:
This new standard establishes accounting principles for entities that have an interest in arrangements that are controlled jointly. The standard focuses on the rights and obligations of the arrangement rather than the legal form. A joint arrangement is an arrangement where two or more parties have joint control by a contractual arrangement and the contractual arrangement gives two or more parties joint control of the arrangement.

Joint arrangements are either joint ventures or joint operations. A joint venture is a separate financial structure where the venturers have rights to the net assets of the arrangements and a joint operation is where the investor has the rights to the assets and obligations to the liabilities of the arrangement.

The standard requires joint ventures to use the equity method of accounting and joint operations are to proportionate consolidate whereby each joint operator recognizes its share of the assets, liabilities, revenue and expenses of the arrangement.

As at January 1, 2013, the Company is party to two joint arrangements, Syria Block 9 and Brunei Block L. Management has determined there will be no material accounting impact related to the change in the accounting standard as the joint arrangements will be considered joint operations.

IFRS 12 Disclosure of interests in other entities:
This new standards requires disclosure for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-statement financial position entities.
The standard requires an entity to disclose information that enables the users of its financial statements to evaluate:

a) The nature of, and risks associated with, its interests in other entities; and
b) The effects of those interests on its financial position, financial performance and cash flows.

The relevant incremental disclosures, if any, will be provided in the 2013 financial statements. Management will provide the disclosures to include the nature of and risks with its interest in other entities and the effects these interests have on the financial position, financial performance and cash flows of the Company.

IFRS 13 Fair value measurement:
This standard defines fair value, establishes a single IFRS framework for measuring fair value and requires increased disclosure on the fair value measurements. IFRS 13 applies to all IFRS standards that require or permit fair value measurements or disclosures about fair value measurements.

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This revised definition of fair value is viewed from the perspective of an exit price for the transaction that a market participant would expect.

Management expects no significant changes to the amounts recorded in the Company's financial statements from the adoption of this standard.

IFRS 9 Financial Instruments:
This standard sets out the recognition and measurement requirements for financial instruments and contracts to buy or sell non-financial items. The IASB is finalizing this standard as it completes the various phases of its comprehensive project on financial instruments. The Company will continue to monitor the changes to this standard as they arise and will determine the impact closer to the effective date which is for accounting periods commencing on or after January 1, 2015.

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 December 31, 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 December 31, 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.

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**.