KULCZYK OIL VENTURES INC.

Management's Discussion and Analysis
For the three months ended March 31, 2013
(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 unaudited Condensed Consolidated Interim Financial Statements as at and for the period ended March 31, 2013 and the December 31, 2012 annual consolidated financial statements and MD&A ("**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 period ended March 31, 2013, this MD&A uses United States dollars ("**US Dollars**") which is the reporting currency of the Company. The Condensed Consolidated Interim Financial Statements for March 31, 2013 are prepared in accordance with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements. This document is dated May 15, 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".

Plan of Arrangement

On April 25, 2013, the Company announced it had entered into an arrangement agreement ("**Arrangement**") with Winstar Resources Ltd. ("**Winstar**") pursuant to which Kulczyk Oil will acquire all of the issued and outstanding shares of Winstar. Under the terms of the Arrangement, Winstar shareholders, for each share held, will be entitled to receive 7.555 shares of Kulczyk Oil or CAD$2.50 in cash, subject to a maximum of CAD$35 million in cash. The cash consideration will be funded by a consortium of investors led by Kulczyk Investments S.A. ("**KI**"), the major shareholder of Kulczyk Oil. The consortium will purchase shares from those Winstar shareholders who wish to tender their shares for the cash consideration. KOV will then purchase shares from those Winstar shareholders who wish to tender their shares for the share consideration, including those acquired for cash by the consortium.

As a condition of the Arrangement, Kulczyk Oil will apply to list its shares on the Toronto Stock Exchange, undertake a 10:1 share consolidation and be renamed Serinus Energy Inc. The Company will continue to be listed on the Warsaw Stock Exchange.

Financial Highlights

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

	Three months ended March 31, 2013		Three months ended March 31, 2012	
Average daily production in Mcfe (net to 70% KOV)		18,905		13,865
Oil and gas revenue (100%)	$	28,709	$	21,820
Netback per Mcfe	$	6.68	$	7.99
Funds from operations	$	9,542	$	8,589
Funds from operations per share	$	0.02	$	0.02

During the first quarter of 2013, production levels continued their upward trend averaging 18,905 Mcfe per day, net to KOV's 70% interest in its Ukraine assets, reflecting the results of capital programs during the first quarter of 2013 and in 2012. Production is weighted 96% natural gas. Average production during the first quarter was 18,067 Mcf per day of natural gas and 140 bbls per day of condensate. Average commodity prices remained strong and were slightly less during first quarter 2013 at $11.81 Mcfe as compared to $12.11 Mcfe for the first quarter 2012. The netback for the first three months of 2013 was $6.68 per Mcfe compared to $7.99 in the first three months of 2012. The decrease is due to lower natural gas realized prices, a higher natural gas royalty rate (25% in 2013 from 18% in 2012) and increased production expenses per Mcfe, due in part to a non-recurring bonus payment.

Funds generated from operations was $9.5 million in the first three months of 2013, as compared to $8.6 million in the first three months of 2012, the increase of $0.9 million was primarily attributable to increased production, partially offset by royalty and production expenses.

During the first quarter of 2013, the Company made an early repayment of $10 million on the European Bank for Reconstruction and Development ("**EBRD**") loan from cash generated by operations in Ukraine, in addition to the regular scheduled repayments, leaving a balance of $9.0 million outstanding as at March 31, 2013. In addition, dividends were successfully paid out to the Company and the minority shareholder in the Ukraine assets during the first quarter of 2013. This is the first time a dividend has been paid to shareholders of the Ukrainian assets which results in the Company's portion of the dividend, $7.0 million, being available for general use.

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 first quarter of 2013 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)	27,007	(8,102)	18,905
Oil and gas revenue	$ 28,709	$ (8,613)	$ 20,096
Royalties	(7,547)	2,264	(5,283)
Oil and gas revenues, net of royalties	21,162	(6,349)	14,813
Production expenses	(4,919)	1,476	(3,443)
General and administrative	(3,239)	510	(2,729)
Transaction costs	(500)	-	(500)
Stock-based compensation	(227)	-	(227)
Depletion and depreciation	(5,087)	1,514	(3,573)
Finance income and expenses	(1,498)	259	(1,239)
Earnings before taxes	5,692	(2,590)	3,102
Current tax expense	(1,581)	474	(1,107)
Deferred tax expense	123	(36)	86
Earnings for the period	$ 4,234	$ (2,152)	$ 2,082

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 net 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.

(Stated in US dollars, except as noted)

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 $137.1million of revenue, net of royalties, in aggregate from these assets.
- In Brunei, the Company holds a 90% working interest in the Brunei Block L production sharing agreement ("**Block L PSA**") which gives the Company and the other parties thereto the right to explore for and, upon fulfillment of certain conditions, the right to produce oil and gas from Block L, a 1,123 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;
- 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.
- 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 March 31, 2013 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 25,810 Mcf/d (70% net: 18,067 Mcf/d) for the three month period ended March 31, 2013, an increase of 39% over the average production for the first quarter of 2012 of 18,597 Mcf/d.
- In March 2013, the Company's net production from Ukraine had increased to more than 18.1MMcf/d with gross production of more than 25.8 MMcf/d from the four producing fields.
- In April 2013 the Company announced the M-16 exploration well resulted in the discovery of a new pool on the Makeevskoye field in the S5 zone which tested at more than 4.3 MMcf/d.
- During March 2013 drilling commenced on the O-15 well. O-15 will be drilled to a total measured depth of 3,200 metres and is expected take approximately 70 days to reach its planned total measured depth.
- During February 2013 the NM-2 well was abandoned after being drilled to a depth of 3,150 metres and after information obtained during drilling indicated there was no prospective zones.

Future plans

KUB-Gas has plans to drill up to four additional new wells and continue the workover and frac'ing programs in 2013 to further develop the five fields. KUB-Gas will also be improving its facilities to increase the throughput capacity from approximately 26 MMcf/d to 64 MMcf/d.

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 first quarter 2013, the Company finalized its drilling program on the Lukut Updip-1 well and will commence drilling late in May 2013.

During the first quarter, 2013 the Company entered into an agreement with PT Energi Tata Persada ("**PT Energi**"), a drilling company based in Jakarta, Indonesia, for the ETP-03 drilling rig. This rig is currently being rigged up at the Lukut Updip-1 well-site in preparation for the commencement of the drilling program.

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 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 March 31, 2013, the Company has spent $44.5 million for its share of expenditures on Block L.

BRUNEI - BLOCK M

Background

The Company previously held a 36% interest in the Block M PSA. 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 impaired its Block M exploration and evaluation assets during 2012.

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. A difficult operating environment resulted in an indefinite suspension of the Company's exploration activity in Syria.

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.

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. The exploration asset and the investment in Ninox were both fully impaired at December 31, 2011.

Update and Future Plans

As at March 31, 2013, 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.

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 EBRD financing is sufficient to support the significant capital investment program in Ukraine.

Throughout the first quarter of 2013, the Company enhanced production in Ukraine and progressed the 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 $55.5 million in the aggregate. None of the Company's properties outside of Ukraine have generated revenues.

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.

Funds from Operations

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Funds from operations	$ 9,542	$ 8,589
Funds from operations per share	$ 0.02	$ 0.02

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.

Positive funds from operations are generated in Ukraine, representing the Company's only producing assets. Funds from operations generated from Ukraine were sufficient to cover the operating cash outflows for the rest of the Company.

Funds from operations increased by $0.9 million to $9.5 million for the first quarter of 2013 (2012 - $8.6 million). The increase in funds from operations for the first three months of 2013 is attributable to increased production ($6.9 million) and a decrease in current taxes ($1.3 million), partially offset by increased royalties ($3.3 million), production costs ($2.9 million), general and administrative costs ($0.2 million), transactions costs ($0.5 million), and interest and other ($0.1 million).

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

(Thousands of US dollars)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash flow from operations	$ 9,134	$ 14,011
Changes in non-cash working capital	408	(5,422)
Funds from operations	$ 9,542	$ 8,589

Oil and Gas Netback

	Three months ended March 31,					
	2013			2012		
	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**	Gas (Mcf)	Condensate (bbl)	**Total (Mcfe)**
Average daily sales volumes (net to KOV)	18,067	140	**18,905**	13,018	141	**13,865**
Days in period	90	90	**90**	92	92	**92**
Sales volumes (Mcf;bbl;Mcfe)	2,322,895	17,952	**2,430,608**	1,109,612	11,489	**1,178,547**
Financial						
Revenue	$ 11.61	$ 95.69	**$ 11.81**	$ 11.76	$ 95.19	**$ 12.11**
Royalty expense	(2.97)	(36.47)	**(3.10)**	(2.09)	(38.74)	**(2.38)**
Royalty as a % of revenue	*25.6%*	*38.1%*	***26.3%***	*17.8%*	*40.7%*	***19.6%***
Production expenses	(2.12)	-	**(2.02)**	(1.22)	-	**(1.74)**
Netback	$ 6.52	$ 59.22	**$ 6.68**	$ 8.45	$ 56.45	**$ 7.99**

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

Netback decreased to $6.68 per Mcfe in first quarter 2013 compared to $7.99 per Mcfe in first quarter 2012, due to lower realized prices, higher royalty rates (25% in 2013 from 18% in 2012) and increased production expenses due in part to a non-recurring bonus payment, all as further explained below.

Sales revenue, net of royalties

(Thousands of US dollars)	Three months ended March 31, 2013	2012
Oil and gas revenue	$ 28,709	$ 21,820
Royalty expense	(7,547)	(4,281)
Revenue, net of royalties	$ 21,162	$ 17,539

Oil and gas revenue increased by 32% in the first quarter of 2013 as compared to the first quarter of 2012, driven by a 36% increase in production volumes, partially offset by a 2% decline in the average realized price.

Production volumes increased by 36% in the first quarter of 2013 to 18,905 Mcfe/d, net to KOV, compared to 13,865 Mcfe/d in the comparable period of 2012. The increase in the first quarter of 2013 reflects six new wells that were tied-in and brought onto production during 2012 and numerous wells that have been worked over.

Commodity prices were slightly lower in first quarter 2013 compared to the same period in 2012, with a realized natural gas price of $11.61 per Mcf and condensate of $95.69 per bbl, compared to $11.76 and $95.19, respectively, for the first quarter of 2012. The domestic gas price within Ukraine is set by the National Electricity Regulatory Commission of Ukraine by reference to the Russian imported gas price.

Prior to 2013, royalty rates were set each month by the government of Ukraine based primarily on prevailing market prices. Commencing January 2013, royalty rates were set at rates of 25% for natural gas and 39% for condensate. The average royalty rates in the first quarter of 2013 was 26.3% as compared to 19.6% in the first quarter of 2012, the increase reflecting the new legislated rates for 2013.

Production expenses

(Thousands of US dollars except per unit amounts)	Three months ended March 31, 2013	2012
Production expenses	$ (4,919)	$ (2,064)
Per Mcfe	$ (2.02)	$ (1.74)

Production expenses relate to the operations in Ukraine. On an absolute basis, production expenses have increased 58% to $4.9 million in the first quarter of 2013 from $2.1 million in the first quarter of 2012, and have increased on a per Mcfe basis to $2.02 from $1.74. The increase is attributable to higher payroll costs in 2013, primarily due to a non-recurring bonus payment and an increase in staffing levels, and to increased materials costs.

General and Administrative

(Thousands of US dollars except per unit amounts)	Three months ended March 31, 2013	2012
General and administrative	$ (3,239)	$ (3,131)
Per Mcfe	$ (1.33)	$ (2.66)

General and administrative ("**G&A**") costs for the first quarter of 2013 were comparable to the first quarter of 2012 at $3.2 million. 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 March 31, 2013	2012
Transaction costs	$ (500)	$ -
Per Mcfe	(0.21)	-

Transaction costs are project related expenditures and for the first quarter of 2013 include costs associated with a potential Winstar acquisition.

Stock based compensation

(Thousands of US dollars except per unit amounts)	Three months ended March 31, 2013	2012
Stock based compensation	$ (227)	$ (551)
Per Mcfe	$ (0.09)	$ (0.47)

Stock based compensation was $0.2 million (2012 - $0.6 million) for the first quarter of 2013. The decrease in this expense reflects the number of options granted and immediately vested in the first quarter of 2012, whereas no options were granted during the first quarter of 2013. Under the terms of the stock option plan, when options are granted 1/3 vest immediately and then 1/3 vests on the anniversary of grant date for each of the two subsequent years. The terms results in a proportionally higher expense in the period of grant compared to later periods.

Depletion and Depreciation and Impairment

(Thousands of US dollars except per unit amounts)	Three months ended March 31, 2013	2012
Depletion and depreciation ("**D&D**")	$ (5,087)	$ (5,317)
Impairment	$ -	$ (96)
D&D per Mcfe	$ (2.09)	$ (4.51)

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 first quarter of 2013 was $5.1 million compared to $5.3 million in the first quarter of 2012, a decrease of 4% due to lower depletion rates per Mcfe. The depletion rate per Mcfe declined to $2.09 in the first quarter of 2013, from $4.51 in the comparable period of 2012, due to the increase in reserve volumes as at December 31, 2012.

Interest expense and accretion

(Thousands of US dollars)	Three months ended March 31, 2013	2012
Interest on long-term debt	$ (952)	$ (1,097)
Interest on convertible note payable and convertible debentures	(419)	(588)
Accretion	(11)	(8)
	$ (1,382)	$ (1,693)

Interest and accretion expense in the first quarter of 2013 was $1.4 million (2012 - $1.7 million). The decrease in the current quarter was attributable to lower debt levels in the first quarter of 2013 as compared to the comparable period of 2012, plus the KI debt in 2013 carried lower interest rates than the debt held in 2012.

Summarized Balance Sheet ($'000's)

(Thousands of US dollars)	As at March 31, 2013	As at December 31, 2012	2011
Total current assets	$ 31,511	$ 40,305	$ 19,284
Total non-current assets	$ 150,955	$ 147,404	$ 200,991
Total assets	$ 182,466	$ 187,709	$ 220,275
Total current liabilities	$ 44,923	$ 39,088	$ 18,751
Total non-current liabilities	$ 12,632	$ 25,171	$ 26,997
Total liabilities	$ 57,555	$ 64,259	$ 45,748
Total share capital	$ 231,516	$ 231,516	$ 205,445
Total equity	$ 124,911	$ 123,450	$ 174,527

Total Assets

Total assets as at March 31, 2013 were $182.5 million compared to $187.7 million as at December 31, 2012. The decrease is due to less cash on hand, primarily due to the early repayment of the EBRD loan of $10 million made during the first quarter of 2013.

Total Liabilities

Total liabilities as at March 31, 2013 were $57.6 million compared to $64.3 million as at December 31, 2012 a decrease of $7.9 million, primarily due to a decrease of $12.5 million in the EBRD loan, due to the regular scheduled repayment of interest and principal and the early repayment of $10 million, partially offset by increased accounts payable of $2.8 million, due to the timing of payments to vendors, and the advancement of $2.0 million under the KI loan.

KUB-Gas was in compliance with all three of the EBRD's financial ratio debt covenants at March 31, 2013.

Capital Expenditures

Capital expenditures consist of expenditures incurred on assets which are in the exploration and evaluation stage and include 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 ("**E&E**") are not subject to depletion and depreciation, but are subject to impairment. Expenditures incurred on assets for which technical feasibility and commercial viability have been determined are classified as property, plant and equipment ("**PP&E**") and currently this includes certain Ukraine assets.

During the first quarter of 2013, the Company incurred $3.7 million of capital expenditures on property, plant and equipment, including the drilling of the O-15 well, testing of the M-16 well, NM-2 well costs and certain tie-in costs in Ukraine.

The Company's assets in Brunei and Syria, and certain assets in Ukraine are in the exploration and evaluation stage. The exploration assets in Brunei's Block M and Syria's Block 9 were fully impaired as at December 31, 2012. During the first quarter of 2013, $5.1 million was spent on E&E assets, including $3.7 million in Brunei and $1.4 million in Ukraine.

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

(Thousands of US dollars)	As at March 31, 2013	As at December 31, 2012
Brunei Block L	$ 44,539	$ 40,820
Ukraine	7,954	6,538
	$ 52,493	$ 47,358

Debt and Convertible Debt

KI – Convertible note

On June 22, 2012, the Company entered into a loan agreement with KI for a maximum of $12.0 million. The loan bears interest at 15% and matures December 31, 2013. The debt is 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.

During the first quarter 2013, the final $2 million was drawn on this loan resulting in an outstanding balance of $12 million as at March 31, 2013. It is a condition of the Arrangement that this debt be converted to common shares at time of the closing of the Arrangement.

On May 8, 2013, KI provided formal notice to convert the principle and accrued interest up to June 20, 2013, an aggregate of $13.4 million to common shares at a price of approximately $0.42 for a total of 31.8 million common shares to be issued.

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 with the total not to exceed 15%. 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 March 31, 2013, $9.0 million of principal and interest was outstanding (December 31, 2012: $21.4 million). In January 2013, a $10.0 million early repayment and a $1.8 million regular scheduled payment were made. At March 31, 2013, $4.3 million is reported as a current liability.

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. On maturity, the $23.5 million principal and all accrued interest was 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 $0.3 million for the period ended March 31, 2013.

At March 31, 2013, 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 March 31, 2013, approximately 41% 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 the first quarter of 2013, 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 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 has shown not to be a material restriction.

As the operator of the Block 9 joint venture in Syria, the Company has experienced 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 or has sought and obtained waivers to the covenants.

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 March 31, 2013	As at December 31, 2012
Current assets	$ 31,511	$ 40,305
Current liabilities	44,923	39,088
Working capital/(deficiency)	$ (13,412)	$ 1,217

The Company has working capital deficiency of $13.4 million as at March 31, 2013 compared to positive working capital of $1.2 million as at December 31, 2012, largely due to less cash on hand resulting from the early repayment of the EBRD debt of $10 million. The $12.0 convertible note payable and accrued interest, currently reported as current liabilities, will be converted into common shares.

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 period ended March 31, 2013, the fees totalled $248,436 (2012 - $178,056). At March 31, 2013, $10,532 was owed to Nemmoco (2012 - $59,352).

Loon Energy Corporation ("**Loon Energy**"), a publicly traded Canadian corporation, has no employees. Management and administrative services are provided by the management and staff of Kulczyk Oil on a fee for services arrangement. For the period ended March 31, 2013, these fees totalled $2,971 (2012 - $3,150). At March 31, 2013, Loon Energy owed $23,993 (2012 – $11,550) 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 March 31, 2013, Loon Energy owed $122,829 (2012 – $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 provides office space to Jura Energy Corporation ("**Jura**"), a public company in which the Company owns 1.1% of the outstanding common shares. For the period ended March 31, 2013, the Company charged costs to Jura totalling $6,035 (2012 – $30,900). At March 31, 2013, $4,024 (2012 – $41,199) was due from Jura. Until the third quarter of 2012, the Company provided financial and accounting services, pursuant to a shared services agreement to Jura. 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 until Jura completed an acquisition during the third quarter of 2012, at which point the board of directors was reconstituted and a change in management occurred, the result of which is that one of the directors and the CFO are no longer associated with Jura.

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) acquire and process 130 square kilometres of onshore 3D seismic; ii) acquire and process 13.5 square kilometres of onshore 3D swath data; iii) acquire and process 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 outstanding is to drill two exploration wells, the first of which is scheduled to start drilling in late May 2013.

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, the Company expects to drill a further four wells 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.

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)

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Oil and gas revenue	$ 28,709	$ 27,338	$ 25,717	$ 24,713
Netback ($/Mcfe)	$ 6.68	$ 8.20	$ 8.05	$ 7.81
Earnings (loss) for the period	$ 4,234	$ 1,065	$ (83,348) (2)	$ 1,275
Per share - basic and diluted	$ 0.01	$ 0.00	$ (0.18)	$ 0.00
Average daily production (Mcfe)(1)	18,905	17,621	16,428	15,797

	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Oil and gas revenue	$ 21,820	$ 14,299	$ 10,871	$ 5,224
Netback ($/Mcfe)	$ 8.59	$ 7.99	$ 5.11	$ 4.43
Loss for the period	$ 2,026	$ (9,282) (3)	$ (2,437)	$ (3,308)
Per share - basic and diluted	$ 0.00	$ (0.02)	$ (0.01)	$ (0.01)
Average daily production (Mcfe)	13,865	8,967	5,451	4,378

(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

Share Data

The Company is authorized to issue an unlimited number of common shares of which 481,756,729 common shares and 41,179,000 options to purchase common shares were outstanding as at March 31, 2013. There has been no change to the number of common shares between March 31, 2013 and May 15, 2013.

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

Summary of common shares outstanding:

(Thousands of US dollars, except share data)	Number of Shares	Carrying amount
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 March 31, 2013 and December 31, 2012	481,756,729	$ 231,516

There have been no changes to common shares outstanding in the first three month of 2013.

The following table summarizes information about common share purchase options outstanding and exercisable at March 31, 2013:

Exercise price (US$)	Options outstanding	Options exercisable	Contractual life remaining, years (weighted average)
$ 0.40	475,000	475,000	0.51
$ 0.40	75,000	75,000	0.88
$ 0.69	1,660,000	1,660,000	1.12
$ 0.60	10,250,000	10,250,000	1.46
$ 0.56	14,193,000	14,193,000	2.15
$ 0.40	42,000	42,000	2.52
$ 0.47	970,000	646,667	2.96
$ 0.40	150,000	100,000	3.11
$ 0.40	698,000	465,333	3.34
$ 0.40	7,506,000	5,004,000	3.68
$ 0.38	900,000	300,000	3.79
$ 0.40	250,000	83,333	3.81
$ 0.51	120,000	40,000	3.95
$ 0.49	530,000	176,667	4.09
$ 0.49	180,000	60,000	4.10
$ 0.41	900,000	300,000	4.34
$ 0.43	2,100,000	700,000	4.37
$ 0.42	60,000	20,000	4.46
$ 0.40	120,000	40,000	4.46
$ 0.52	41,179,000	34,631,000	2.49

During first quarter 2013 no share purchase options were granted. The share purchase options outstanding have a five-year term and vest one-third immediately, and one-third on each of the first and second anniversary of the grant date.

During the first quarter of 2013, 115,000 share purchase options were forfeited and nil expired.

The complete list of shares and options owned by KOV directors and executive officers is presented in the Management's Discussion and Analysis for the year ended December 31, 2012. As at the date of issuing this report, management is aware of two shareholders holding more than 5% of the common shares of the Company. KI owns approximately 49.99% and Radwan owns approximately 5.53% of common shares issued at March 31, 2013.

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, when required, 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 March 31, 2013 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 the Ukrainian credit risk is not significant, as the gas sold under contract is based on monthly nominations, and traditionally was paid for at the beginning of each month and therefore prior to the gas being delivered to the customer. This practice of pre-paying for natural gas sales appears to be changing in 2013 with an increasingly competitive gas sales market; KUB-Gas management is presently evaluating what additional credit assessment measures, if any, should be implemented. The Company's credit risk arising from possible defaults on gas sales contracts will, at worst, be limited to one month's sales.

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 March 31, 2013 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.

	March 31, 2013		March 31, 2012	
(Thousands)	CAD	UAH	CAD	UAH
Cash and cash equivalents	60	13,603	98	126,274
Accounts receivable	259	12,034	303	9,121
Prepaid expenses	229	42,232	203	4,764
Accounts payable and accrued liabilities	(536)	(103,132)	(34)	(43,857)
Net foreign exchange exposure	12	(35,263)	570	96,302
US $ equivalent at period end exchange rate	$ 12	$ (4,412)	$ 572	$ 11,836

For the period ended March 31, 2013, 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 an immaterial amount. 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.

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

This outlook excludes the impact of Winstar.

In 2013, in Ukraine the Company intends to drill up to five 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 late May 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 period 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.

Changes in Accounting Policies

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7) as well as amendments related to investments in associates and joint ventures

(IAS 28). The adoption of these amendments and standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods. Additional fair value disclosure in accordance with IFRS 13 is included in the notes to the financial statements.

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

The preparation of this MD&A is supported by a set of disclosure controls and procedures as at March 31, 2013. 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 March 31, 2013 were effective in ensuring that all material information required to be filed had been provided to it in a timely manner, and that the information was recorded, processed and reported within the time period necessary to prepare the filings. The board of directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

There were no material changes to the Company's internal controls over financial reporting since December 31, 2012.

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**.